



**Report of the
Comptroller and Auditor General of India
On
Social, Economic, Revenue and General Sectors
for the year ended March 2015**



Government of Sikkim

Report No. 1 of 2016

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PREFACE

1. This Report for the year ended March 2015 has been prepared for submission to the Governor of Sikkim under Article 151 of the Constitution of India.
2. The Report contains significant results of the performance audit and compliance audit of the Departments of the Government of Sikkim under the Social, Economic, Revenue and General Services including the Departments of Human Resource Development; Energy and Power; Horticulture and Cash Crop Development; Forest, Environment and Wildlife Management; Roads and Bridges; Rural Management and Development; Transport; Finance, Revenue and Expenditure; Excise (Abkari); Land Revenue and Disaster Management; Building and Housing and public sector undertakings/Board, viz. Sikkim State Co-operative Bank Limited, Sikkim Tourism Development Corporation Limited and Sikkim Housing Development Board.
3. The instances mentioned in this Report are those, which came to notice in the course of test audit for the period 2014-15 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports; instances relating to the period subsequent to 2014-15 have also been included, wherever necessary.
4. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

EXECUTIVE SUMMARY

This Audit Report has been prepared in six chapters. Chapters I to V deal with Social, Economic, Public Sector Undertakings, Revenue and General Sectors and Chapter VI deals with Follow up of Audit observations.

This Report contains 30 audit paragraphs (including 14 general paragraphs) and three Performance Audits. According to the existing arrangements, copies of the draft compliance audit paragraphs and draft performance audits were sent to the Secretary of the Department concerned by the Accountant General (Audit) with a request to furnish replies within six weeks. Replies were received from the departments concerned except in respect of 4 paragraphs (1.3, 2.7, 2.8 and 3.3).

SOCIAL SECTOR

COMPLIANCE AUDIT

Against the financial propriety, Human Resource Development Department (HRDD) procured laptops at an expenditure of ₹ 47.43 crore for free distribution to the students. Due to drawal of loan on behalf of and for the HRDD, the Sikkim State Cooperative Supply and Marketing Federation Limited (SIMFED) suffered a loss of ₹ 1.22 crore towards payment of interest on loan.

(Paragraph 1.3)

ECONOMIC SECTOR

PERFORMANCE AUDIT

Implementation of Re-Structured Accelerated Power Development and Reforms Programme in Sikkim

In order to restore the commercial viability of the power distribution sector, Government of India (GoI) introduced (2000-01) the Accelerated Power Development Programme (APDP), which was later renamed (2002-03) as Accelerated Power Development and Reforms Programme (APDRP). The objectives of APDRP were to improve financial viability of State Power Utilities, reduce Aggregate Technical and Commercial (AT&C) losses and increase reliability and quality of power supply. The GoI continued (September 2008) 'Re-structured Accelerated Power Development and Reform Programme (R-APDRP) with revised terms and conditions. The R-APDRP scheme was to be implemented in two parts - Part-A involved establishment of an IT system capable

of energy accounting, auditing and measuring AT&C loss and Part-B involved improvement of distribution infrastructure.

The Energy and Power Department (EPD), Government of Sikkim (GoS) selected two towns namely Gangtok and Upper Tadong for the implementation of the Scheme in the State which had AT&C loss of around 59 and 54 *per cent* before the implementation of the scheme. Part-A of the Scheme, which was approved (September 2009) had been completed (November 2013). The works relating to Part-B of the Scheme, which was approved (August 2010) by GoI were ongoing (October 2015).

The Performance Audit on the implementation of the R-APDRP scheme by EPD for the period from 2010-11 to 2014-15 showed that due to delay in release of counterpart funding by GoS, GoI stalled release of balance funds (₹ 41.07 crore) towards its share of project funding causing adverse impact on implementation of the projects. Detailed Project Reports prepared for Part-B project works were not realistic due to adoption of unverified data of AT&C losses. Further, EPD made certain revisions in the approved DPRs of the projects without approval of PFC/GoI contrary to the scheme conditions. The implementation of the project by EPD was found to be deficient as instances of sub-contracting of project works by the Contractors were noticed in violation of the agreed terms of the works contract. EPD did not plan for dismantling and disposal of the replaced assets leading to possibility of damages/theft of these assets as well as unnecessary occupation of the available space.

Despite the mandatory requirement of the Scheme, EPD did not ensure an active State Level Distribution Reforms Committee in place for monitoring of the Scheme works. EPD also failed to submit the Monthly Progress Reports on the Scheme works to the Power Finance Corporation Limited/GoI for monitoring of the project works and utilisation of project funds. In absence of an effective monitoring mechanism for implementation of the Scheme works, Part-A works of the project were completed after a delay of 18 months from the scheduled date of completion while the Part-B works could be completed to the extent of 45.13 *per cent* only even after lapse of more than one year of the scheduled completion date.

As against the envisaged target of reducing the AT&C losses to the level of 15 *per cent* for a continuous period of five years, EPD could bring down the AT&C losses in respect of two cities (Gangtok and Upper Tadong towns) covered under the Scheme to 36.97 and 34.32 *per cent* respectively during the first five years of Scheme implementation. Due to failure in achieving the targeted level of AT&C loss as well as non-completion of the Part-B project works within five years of sanctioning (August 2010) of the Scheme, EPD was not likely to get the benefit of conversion of GoI loan into grants under the scheme.

The progress of installation of consumer electronic meters by EPD was slow due to taking up the work departmentally.

(Paragraph 2.3)

Horticulture Development in Sikkim

Considering the varied topography, scattered and marginal land holdings of the farmers in Sikkim, horticultural crops were thought to be a viable alternative in generating employment and supplementing farmers' income beyond subsistence level. The efforts of the Department through technological transfer, input and infrastructure support such as green houses, irrigation facilities, etc. had helped the farmers in supplementing their income to an extent. Some of the farmers have also excelled and earned income ranging between ₹ 0.50 and ₹ 2.5 lakh per annum. However, majority of the farmers were not able to come above the subsistence level primarily owing to small land holding and absence of adequate marketing facilities. The Department also needed to expedite the base line survey, formulation of TSG, appropriate preparation of Perspective Plan and Annual Action Plans. The infrastructural facilities such as Integrated Floriculture Pack House, Sorting and Grading line for Sikkim mandarin, etc. should be put to their intended use. The mother blocks should be executed in CoEs to ensure contribution towards improved varieties of various crops as was done in Odisha, Haryana, etc. Suitable steps were required to be initiated to enhance the productivity of fruits, vegetables and spices to catch up with similarly placed States and all India average. This will help to realise full potential of the horticulture and make it an effective tool for accelerating development in the State. The Horticulture Development will receive further fillip once the Department initiates corrective actions in the areas of concern pointed out in this report.

(Paragraph 2.4)

COMPLIANCE AUDIT

Imprudent decision of Energy and Power Department for re-tendering of work led to extra expenditure of ₹ 2.27 crore on execution.

(Paragraph 2.5)

Failure of Energy and Power Department to communicate the Government approved terms for release of Mobilisation Advance (MA) to the contractor led to non-recovery of interest of ₹ 2.79 crore on MA.

(Paragraph 2.6)

The unwarranted inclusion of item of work Water Bound Macadam (WBM)-III in addition to WBM-I and WBM-II in construction of road works by Roads and Bridges Department led to extra avoidable expenditure of ₹ 2.32 crore in 16 works.

(Paragraph 2.7)

Non-adherence to the provision of SPW Manual in tendering process by Roads and Bridges Department, absence of competitive bidding and award of work at abnormally higher tender rate over and above Schedule of Rates (SOR) 2012 rates resulted in an extra expenditure with consequential undue financial benefit to the contractor to the tune of ₹ 2.27 crore and further committed extra benefit of ₹ 5.21 crore on residual work.

(Paragraph 2.8)

Unrealistic assessment of damaged houses, improper planning and execution of works by Rural Management and Development Department resulted in delay in reconstruction of houses, failure in extending intended benefits of providing emergent shelters to displaced victims due to earthquake. Avoidable expenditure of ₹ 1.09 crore was also incurred.

(Paragraph 2.9)

Failure of Sikkim Housing Development Board to recover and adjust the outstanding loans against the retirement/terminal benefits of the Government employees led to non-recovery of loan to the tune of ₹ 63.94 lakh over a period since May 1994. Also, ₹ 33.57 lakh given to 6 ineligible private persons remained to be recovered and no action had been initiated in respect of 59 employees against the outstanding loan of ₹ 23.51 lakh from the Government employees on roll.

(Paragraph 2.10)

ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKING)

COMPLIANCE AUDIT

Failure of the internal control system in Sikkim State Co-operative Bank Limited and serious negligence on the part of branch officials led to fraudulent withdrawal of cash aggregating ₹ 24.12 lakh at Hee Gaon Branch.

(Paragraph 3.2)

Sikkim Tourism Development Corporation paid ₹ 0.33 crore to the contractor for the work components not executed and did not utilise components created at a cost of ₹ 0.31 crore.

(Paragraph 3.3)

REVENUE SECTOR

COMPLIANCE AUDIT

Collection of Revenue from outsourced activities in Motor Vehicles Tax: The State Government had outsourced three activities, viz. implementation of HSRP, Smoke emission testing and sale of various forms for availing services under MV Act and Rules. Though the Department successfully implemented the HSRP scheme in the State, however, implementation process lacked efficiency and effectiveness. The data on vehicles' population was not reliable as there was marked difference in the report furnished by the Department based on its computerised system with that shown in its own Annual Reports. The Department failed to assess the reasonability of rates while awarding the contract to the successful bidder for affixing HSRP resulting in higher cost of HSRP affixation in the State as compared to other States. The Department did not float NIT well in time to protect the revenue interest of the State and could not avail competitive rates for subsequent term and instead kept on renewing the contract to the existing firm for a period exceeding a year.

Two Auto Emission Testing Centres were being operated in the State by one firm at an annual royalty of ₹ 0.90 lakh which was increased to ₹ 2.53 lakh as of March 2015. The contract with the existing firm continued to be renewed periodically despite submission of offers from other interested firms for operating the centres. This indicated absence of transparency and competitive bidding in selection process resulting in failure to safeguard the revenue interest of the State. Revenue sharing model was defective as it did not ensure linkage between the increasing number of vehicles and revenue to be deposited to the Government by the firm. Due to incorporation of defective clause in the contract agreement as well as in SMV Rules requiring the owners to undertake pollution control check every six months right from the date of registration even for new vehicles as against the provision of CMV Rules requiring pollution check only after expiry of 12 months from date of initial registration resulted into extra financial burden on vehicle owners. Only 7 to 9 *per cent* of registered vehicles in the State had obtained Pollution Under Control (PUC) certificates which indicated weakness of enforcement mechanism creating the possibility of increasing vehicular pollution in the State.

The services relating to sale of forms for availing various services under Motor Vehicles was outsourced to one agent since 1990-91 against the instruction of the Ministry of Surface Transport, GoI for issue of forms free of cost resulting in extra financial burden to the vehicle owners.

(Paragraph 4.12)

The Audit of Commercial Taxes Division revealed system and compliance deficiencies in the Input Tax Credit system. In the existing system, the ITC module is not directly linked with the quarterly returns module as a result of which there were differences in ITC sales figure as compared with the 'sales to registered dealer' figure reflected in the returns or ITC purchase figure as compared with the local purchase figure reflected in the returns. In most of the cases, scrutiny of returns of selling dealers revealed that the sale to registered dealer were more than ITC allowed by them. Provisions of SVAT 2005 were not incorporated in the system.

(Paragraph 4.13)

Inadequate action on the part of the Assessing Authorities at Commercial Taxes Division to scrutinise the e>Returns submitted by the hoteliers in respect of sales of cooked food and non-alcoholic beverages for the period 2012-13 and 2013-14 led to loss of revenue of ₹ 2.59 crore.

(Paragraph 4.14)

Failure of Energy and Power Department to install Maximum Demand Indicator resulted in non-levy of Demand Charges of ₹ 0.42 crore from High Tension Supply consumers for the load exceeded over and above the Contract/Sanctioned demand.

(Paragraph 4.15)

Excise (Abkari) Department failed to realise committed payment of ₹ 5.79 crore from the person entrusted with management, control and governance of Sikkim Distilleries Limited (SDL) during December 2009 to March 2015. The State exchequer also suffered

a resultant loss of ₹ 1.20 crore towards interest that could have been earned from the investment of revenue not realised.

(Paragraph 4.16)

Error in language in the notification by Excise (Abkari) Department for imposing bottling fee resulted in a revenue loss of ₹ 4.32 crore during the years 2011-12 to 2013-14.

(Paragraph 4.17)

Without issue of original license by Directorate of Sikkim State Lotteries which should have been obtained against payment of ₹ five crore for five years, renewal of the same @ ₹ 50 lakh per annum for five years resulted in revenue loss of ₹ 2.5 crore.

(Paragraph 4.18)

GENERAL SECTOR

PERFORMANCE AUDIT

Performance Audit on “Effectiveness in the functioning of State Pollution Control Board”

The Board did not prepare Annual Action Plans since its inception in 1992. There was no inventorisation of industries, stones crusher/hot-mix plants, DG sets, hotels, HCFs, etc. which resulted in operation without consent as well as non-realisation of revenue by the Board. Several industries, municipalities, healthcare establishments were operating without valid/renewed Consent for Operation. Out of 13 towns, 12 towns were operating without any sewage treatment facilities. Some of the industries were not having any ETPs and in some of the industries, ETPs were not functioning. Municipal waste was not treated properly and treatment facilities were not sufficient to treat waste generated in the State as most of the towns were not having such facilities. The UDHD had not so far constructed any landfill site for disposal of untreated non-biodegradable waste. Hazardous waste was also not disposed in prescribed time as most of the industries had kept accumulated hazardous waste in their premises openly. Out of 69 HCFs, only 20 HCFs had obtained BMW authorisation. Some of the HCFs were not having required treatment equipment. The Board was not fully equipped with lab equipment to carry out various types of water and air testing and monitoring facilities. No Air Quality Monitoring Stations were established despite incurring expenditure of ₹ 30.77 lakh on procurement of equipment. There was no authorised collection centre and registered dealer in the State for handling of e-waste. There was huge shortage of water and air stack lab equipment in the Central Lab of the Board. Out of total funds of ₹ 13.70 crore available with the Board during the period of PA, the Board could utilise ₹ 8.02 crore only with a saving of ₹ 5.68 crore. The Board failed to enforce Water Cess Act and hence could not collect water cess of ₹ 0.60 crore. There was diversion of funds towards various purposes like construction, payments on salaries, purchase of vehicles, furniture, computers, establishment of saw mills, etc. amounting to ₹ 90.01 crore from the Sikkim

Ecology Funds and Environment Cess, which was collected to protect and improve the quality of environment, control and abate environment pollution and to take measures for restoration of ecological balance of the State. The Board did not categorise the industries into 'Red', 'Orange' and 'Green' as a result of which there was substantial shortfall in conducting inspections in these industries. There was no monitoring exercised by the Board on compliance of environmental norms by industries, stone crushers, STPs, MSW Plants, etc. Despite such large number of violations, the Board failed to initiate legal action to contain pollution.

(Paragraph 5.3)

CHAPTER I SOCIAL SECTOR

1.1 Introduction

This Chapter of the Audit Report for the year ended 31 March 2015 deals with the findings on audit of the State Government units under Social Sector.

The names of the State Government departments and the total budget allocation and expenditure of the State Government under Social Sector during the year 2014-15 are given in the table below:

Table 1.1.1

(₹ in crore)

| Sl. No. | Name of the departments | Total Budget Allocation | Expenditure |
|---------|--|-------------------------|---------------|
| 1 | Cultural Affairs and Heritage | 30.28 | 18.96 |
| 2 | Ecclesiastical Affairs | 8.62 | 7.52 |
| 3 | Food, Civil Supplies and Consumer Affairs | 37.90 | 33.13 |
| 4 | Health Care, Human Services and Family Welfare | 361.17 | 261.34 |
| 5 | Human Resource Development | 537.00 | 472.74 |
| 6 | Labour | 18.11 | 13.29 |
| 7 | Social Justice, Empowerment and Welfare | 140.92 | 94.25 |
| | TOTAL | 1,134.00 | 901.23 |

Besides the above, the Central Government has been transferring a sizeable amount of funds directly to the implementing agencies under the Social Sector to different departments of the State Government. The major transfers for implementation of flagship programmes of the Central Government are detailed below:

Table 1.1.2

(₹ in lakh)

| Sl. No. | Name of the Department | Name of the Scheme/Programme | Implementing Agency | Funds transferred during the year |
|---------|--|--|---|-----------------------------------|
| 1 | Cultural Affairs | Promotion and Dissemination of Art and Culture | Himalayan Heritage Research and Development Society | 5.01 |
| 2 | Ecclesiastical Affairs | Buddhist and Tibetan Studies | Tingkye Gonjang Nyingma Trust | 15.00 |
| | | | Sikkim Namgyal Institute of Tibetology, Gangtok | 220.00 |
| | | | Sendrup Choiling Trust | 2.50 |
| 3 | Health Care, Human Services and Family Welfare | Assistance to Voluntary Organisation for providing Social Defence | Association for Social Health in India | 9.95 |
| 4 | Human Resource Development | Higher Education Statistics and Public Information System (HESPIS) | Aishe State Unit Sikkim | 2.00 |

| Sl. No. | Name of the Department | Name of the Scheme/Programme | Implementing Agency | Funds transferred during the year |
|--------------|---|---|---|-----------------------------------|
| 5 | Social Justice, Empowerment and Welfare | Grant-in-aid to NGOs for STs including coaching and allied scheme and award for exemplary service | Human Development Foundation of Sikkim, GRBA Road Chongey Tar, Gangtok, East Sikkim | 25.64 |
| | | Assistance to disabled persons for purchase/fitting | DDRC, Gangtok, East Sikkim | 14.66 |
| | | Awareness Generatopm and Publicity | DDRC, Gangtok, East Sikkim | 4.76 |
| TOTAL | | | | 299.52 |

Source: Central Plan Scheme Monitoring System of the GOI.

1.2 Planning and conduct of Audit

Audit process starts with the assessment of risks faced by various departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls, etc.

After completion of audit of each unit on a test check basis, Inspection Reports containing audit findings are issued to the heads of the departments. The departments are to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled based on reply/action taken or further action is required by the audited entities for compliance. Some of the important audit observations arising out of the Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the Legislature.

Test audits were conducted involving expenditure of ₹ 685.97 crore (including expenditure of ₹ 657.98 crore of previous years) of the State Government under Social Sector. The details of year-wise break-up is given in **Appendix 1.2.1**.

This Chapter contains one Compliance Audit Paragraph as given below:

**SIKKIM STATE COOPERATIVE SUPPLY AND MARKETING
FEDERATION LIMITED
AND
HUMAN RESOURCE DEVELOPMENT DEPARTMENT**

1.3 Loss on interest

Against the financial propriety, Human Resource Development Department (HRDD) procured laptops at an expenditure of ₹ 47.43 crore for free distribution to the students. Due to drawal of loan on behalf of and for the HRDD, the Sikkim State Cooperative Supply and Marketing Federation Limited (SIMFED) suffered a loss of ₹ 1.22 crore towards payment of interest on loan.

With a view to empower the senior school children and college students with modern IT tools, the State Government launched (2013-14) a flagship programme to enable students to approach higher education with the confidence of being completely computer literate and having the ability to access information through the internet and other software at par with their peers elsewhere in the country.

SIMFED, an apex Co-operative Society, on behalf of Human Resources Development Department (HRDD), Government of Sikkim, Gangtok procured 18,500 laptops (*Lenovo brand*) in two phases, i.e. 11,000 in July 2013 and 7,500 in November 2013 from Lenovo India Private Limited at a total cost of ₹ 44.99 crore for distribution to students of Class XI, XII and collegians all across the State. The laptops were distributed during September 2013 to December 2013.

Scrutiny of records revealed that the Government of Sikkim had made provision of ₹ 20 crore for purchase of computers during 2013-14. SIMFED was requested to arrange finance to purchase the laptops and make payment on behalf of HRDD. Accordingly, SIMFED availed soft loan to the tune of ₹ 18 crore¹ from State Bank of Sikkim @ 12 *per cent* per annum interest accruing thereon amounting to ₹ 1.22 crore². Total expenditure incurred on purchase of laptops amounted to ₹ 47.43 crore (*including SIMFED commission and other taxes*).

Despite inadequate budget provision, the purchase of laptops as one-time exercise for academic session 2013 instead of implementing the programme in a phased manner as per availability of fund was against the financial propriety on the part of HRDD. Further, drawal of soft loan on behalf of HRDD by the SIMFED led to an avoidable expenditure of ₹ 1.22 crore towards interest.

While the HRDD had not replied till September 2015, SIMFED stated (August 2015) that it did not suffer from any loss in this transaction since the interest components had not been borne by SIMFED. The reply is not tenable, though the interest component will be borne by HRDD as stated by SIMFED but it is actually a loss to the Government in the form of interest.

¹ ₹ 10 crore (January 2014), ₹ 5 crore (March 2014) and ₹ 3 crore (June 2014).

² ₹ 30 lakh (July 2014), ₹ 76.17 lakh (September 2014) and ₹ 16.10 lakh (January 2015).

CHAPTER II ECONOMIC SECTOR

2.1 Introduction

This Chapter of the Audit Report for the year ended 31 March 2015 deals with the findings on audit of the State Government units under Economic Sector.

The names of the State Government departments and the total budget allocation and expenditure of the State Government under Economic Sector during the year 2014-15 are given in the table below:

Table 2.1.1

(₹ in crore)

| Sl. No. | Name of the Departments | Total Budget Allocation | Expenditure |
|---------|--|-------------------------|-----------------|
| 1 | Animal Husbandry, Livestock, Fisheries and Veterinary Services | 48.97 | 40.63 |
| 2 | Buildings and Housing | 56.92 | 49.59 |
| 3 | Commerce and Industries | 57.62 | 44.99 |
| 4 | Co-operation | 16.52 | 15.31 |
| 5 | Energy and Power | 202.78 | 167.75 |
| 6 | Food Security and Agriculture Development | 73.00 | 51.16 |
| 7 | Forest, Environment and Wildlife Management | 286.23 | 175.98 |
| 8 | Horticulture and Cash Crops Development | 93.69 | 59.92 |
| 9 | Irrigation and Flood Control | 154.48 | 22.66 |
| 10 | Mines, Minerals and Geology | 4.23 | 3.78 |
| 11 | Roads and Bridges | 303.16 | 155.05 |
| 12 | Rural Management and Development | 494.19 | 379.95 |
| 13 | Tourism and Civil Aviation | 442.72 | 285.05 |
| 14 | Transport | 56.87 | 51.19 |
| 15 | Urban Development and Housing | 280.86 | 111.56 |
| 16 | Water Security and Public Health Engineering | 92.04 | 55.51 |
| | TOTAL | 2,664.28 | 1,670.08 |

Besides the above, the Central Government has been transferring a sizeable amount of funds directly to the implementing agencies under the Economic Sector to different departments of the State Government. The major transfers for implementation of flagship programmes of the Central Government are detailed below:

Table 2.1.2

(₹ in lakh)

| Sl. No. | Name of the Department | Name of the Scheme/Programme | Implementing Agency | Funds transferred during the year |
|---------|--|--|--|-----------------------------------|
| 1 | Animal Husbandry, Livestock, Fisheries and Veterinary Services | Scheme for Infrastructure Development FPI | Sikkim Livestock Processing and Development Corporation Ltd. | 18.93 |
| 2 | Energy and Power | Grid Interactive Renewable Power MNRE | Sikkim Power Development Corporation Limited | 139.70 |
| | | Information Publicity and Extension | Sikkim Renewal Energy Development Agency | 0.06 |
| | | Off Grid DRPS | Sikkim Renewable Energy Development Agency | 141.33 |
| | | Renewal Energy for Rural Applications for all Villages | Sikkim Renewal Energy Development Agency | 28.30 |

| Sl. No. | Name of the Department | Name of the Scheme/Programme | Implementing Agency | Funds transferred during the year |
|--------------|---|---|--|-----------------------------------|
| 3 | Forest, Environment and Wildlife Management | Environment Information Education and Awareness | State Environment Agency | 64.83 |
| | | North East Council | State Forest Development Agency | 4.75 |
| | | National Medicinal Plants Board | SMPB, Sikkim | 1.00 |
| | | National Medicinal Plants Board | State Forest Development Agency | 610.82 |
| 4 | Gangtok Municipal Corporation | Technical Assistance from Department of International Development | Gangtok Municipal Corporation | 125.00 |
| 5 | Handicraft and Handloom Directorate | National Handloom Development Programme | Sikkim Handicrafts Development Corporation Ltd. | 45.80 |
| | | NER – Textile Promotion Scheme | Sikkim Handicrafts Development Corporation Ltd. | 147.72 |
| | | Technology Development Programme A158 | Sikkim Handicrafts Development Corporation Ltd. | 2.50 |
| 6 | Tourism and Civil Aviation | Capacity Building for Service Provider | Sikkim Tourism Development Corporation Ltd. | 18.82 |
| | | Capacity Building for Service Provider | Food Craft Institute, Kichudumra, Namchi, South Sikkim | 8.14 |
| | | North Eastern Council | Sikkim Tourism Development Corporation Ltd. | 5.75 |
| TOTAL | | | | 1,363.45 |

Source: Central Plan Scheme Monitoring System of the GOI.

2.2 Planning and conduct of Audit

Audit process starts with the assessment of risks faced by various departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls, etc.

After completion of audit of each unit on a test check basis, Inspection Reports containing audit findings are issued to the heads of the departments. The departments are to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled based on reply/action taken or further action is required by the audited entities for compliance. Some of the important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the Legislature.

Test audits were conducted involving expenditure of ₹ 1,306.82 crore (including expenditure of ₹ 902.76 crore of previous years) of the State Government under Economic Sector. The details of year-wise break-up is given in **Appendix 2.2.1**. This Chapter contains two Performance Audits on ‘Implementation of Re-structured Accelerated Power Development and Reforms Programme in Sikkim’, and ‘Horticulture Development in Sikkim’ and six Compliance Audit Paragraphs as given below:

ENERGY AND POWER DEPARTMENT

2.3 Implementation of Re-structured Accelerated Power Development and Reforms Programme in Sikkim

In order to restore the commercial viability of the power distribution sector, Government of India (GoI) introduced (2000-01) the Accelerated Power Development Programme (APDP), which was later renamed (2002-03) as Accelerated Power Development and Reforms Programme (APDRP). The objectives of APDRP were to improve financial viability of State Power Utilities, reduce Aggregate Technical and Commercial (AT&C) losses and increase reliability and quality of power supply. The GoI continued (September 2008) 'Re-structured Accelerated Power Development and Reform Programme (R-APDRP) with revised terms and conditions. The R-APDRP scheme was to be implemented in two parts – Part-A involved establishment of an IT system capable of energy accounting, auditing and measuring AT&C loss and Part-B involved improvement of distribution infrastructure.

The Energy and Power Department (EPD), Government of Sikkim (GoS) is responsible for transmission and distribution of electricity in the State of Sikkim. Besides, the EPD also undertakes the power generation upto 25 MW while the generation of electricity above 25 MW in the State was being undertaken through Independent Power Projects (IPPs). The EPD selected two towns namely Gangtok and Upper Tadong for the implementation of the programme in the State of Sikkim which had AT&C loss of around 59 and 54 per cent before the implementation of the scheme. Part-A of the Scheme, which was approved (September 2009) had been completed (November 2013). The works relating to Part-B of the Scheme, which was approved (August 2010) by GoI were ongoing with completion percentage of around 45 per cent (October 2015).

The present audit was conducted to assess the performance of EPD in implementation of the R-APDRP scheme in the State during the period 2010-11 to 2014-15. The following are the highlights of the Audit:

Highlights

Due to delay in release of counterpart funding by GoS, Government of India (GoI) also stalled release of the balance funds (₹ 41.07 crore) towards its share of project funding causing adverse impact on implementation of the projects.

(Paragraph-2.3.7.1)

Detailed Project Reports (DPRs) prepared for Part-B project works were unrealistic due to adoption of unverified data of Aggregate Technical & Commercial (AT&C) losses. Further, the revisions made by EPD in the approved DPRs of the projects without approval of PFC/GoI was irregular.

(Paragraph-2.3.7.3)

Contrary to the provisions of the Work Manual, EPD did not plan for dismantling and disposal of the replaced assets leading to possibility of damages/theft of these assets and unnecessary occupation of the available space.

(Paragraph-2.3.7.5)

Due to failure in achieving the targeted level (15 per cent) of AT&C loss as well as non-completion of the Part-B project works within five years of sanctioning (August 2010) of the Scheme, EPD was not likely to get the benefit of conversion of GoI loan into grants under the scheme.

(Paragraph-2.3.9.4)

2.3.1 Introduction

The Energy and Power Department (EPD), Government of Sikkim (GoS) is responsible for transmission and distribution of electricity in the State of Sikkim. Besides, the power generation upto 25 MW was also being undertaken by EPD while generation of electricity above 25 MW in the State was being undertaken through Independent Power Projects (IPPs).

Background

The distribution system of the power sector constitutes the final link between the distribution utility and the consumer. Thus, the real challenge of reforms in the power sector lies in efficient management of the distribution system. As a mean for restoring the commercial viability of the power Distribution Sector, Government of India (GoI) introduced (2000-01) the Accelerated Power Development Programme (APDP), which was later renamed (2002-03) as Accelerated Power Development and Reforms Programme (APDRP). The objectives of APDRP were to improve financial viability of State Power Utilities, reduce Aggregate Technical and Commercial (AT&C) losses and increase reliability and quality of power supply. The GoI continued (September 2008) 'Re-structured Accelerated Power Development and Reform Programme (R-APDRP) with revised terms and conditions.

R-APDRP Scheme features

The R-APDRP introduced (September 2008) by the GoI envisaged establishment of reliable and automated systems for sustained collection of accurate base line data and adoption of Information Technology in the areas of energy accounting before taking up the regular distribution strengthening projects. EPD was responsible for the implementation of R-APDRP in the State of Sikkim.

The main objectives of R-APDRP were to:

- reduce Aggregate Technical & Commercial losses (AT&C losses);
- reduce outages and interruptions;
- increase consumer satisfaction.

In the case of Special Category States (viz. all North Eastern States, Sikkim, Uttarakhand, Himachal Pradesh and Jammu and Kashmir), R-APDRP was intended to cover the urban areas (towns and cities) with a population limit of 10,000 and more.

Projects under the present scheme were to be taken up in two parts as detailed below:

Part-A: Preparation of Base-line data for the project area covered. The work of preparation of Base-line data broadly included the works relating to Consumer Indexing, Global Information System (GIS) Mapping, Metering of Distribution Transformers and Feeders, Automatic Data Logging for all Distribution Transformers and Feeders and Supervisory Control and Data Acquisition (SCADA)/Distribution Management System (DMS)¹ and Asset Mapping². Besides, the work also included compilation of information/data relating to adoption of IT applications for meter reading, billing and collection; energy accounting and auditing; Management Information System (MIS); redressal of consumer grievances; establishment of IT enabled consumer service centres, etc. Further, the base line data as well as the newly installed system was required to be verified by an independent agency appointed by the Ministry of Power (MoP).

Part-B: Renovation, modernisation and strengthening of 11 KV level substations, Transformers/Transformer Centres, Re-conductoring of lines at 11 KV level and below, Load Bifurcation, Feeder Separation, Load Balancing, 11 KV High Voltage Distribution System (HVDS), Aerial Bunched Conductoring in dense areas, replacement of electromagnetic energy meters with tamper proof electronic meters, installation of capacitor banks and mobile service centres, etc. In exceptional cases, where the sub-transmission system was weak, strengthening at 33 KV or 66 KV levels was also to be considered.

The EPD was simultaneously required to initiate the process of obtaining sanction and completing other formalities for execution of Part-A and Part-B projects. Part-B activities of the scheme were, however, likely to start 3-6 months after making arrangements of ring fencing³ of the project area and verification of the starting figure of AT&C loss of the project area by an independent agency under Part-A of the R-APDRP.

Nodal Agency

The Power Finance Corporation (PFC) was appointed as the ‘Nodal Agency’ for operationalisation and implementation of R-APDRP programme, under the overall guidance of the Ministry of Power (MoP), Government of India (GoI).

Funding of the Scheme

Part-A Initially 100 *per cent* funds for the projects were to be provided by GoI in the form of interest bearing loan. The said loan along with interest was to be converted into grant after successful achievement of the system efficiency parameters and its verification by the independent agency appointed by the MoP through the nodal agency. Conversion of GoI loan to grant was, however, not allowed in case the R-APDRP projects were not

¹ Only in project areas having a population over 4 lakh and annual input energy of 350 Million Unit.

² Asset Mapping of the entire distribution network at and below the level of 11 KV transformers and shall include the Distribution Transformers and Feeders, Low Tension lines, poles and other distribution network equipment.

³ The project area is electrically ring fenced. Ring fencing is done to measure net input energy (difference of energy entering into and leaving) the project area through installation import/export meters at the boundary of the project area.

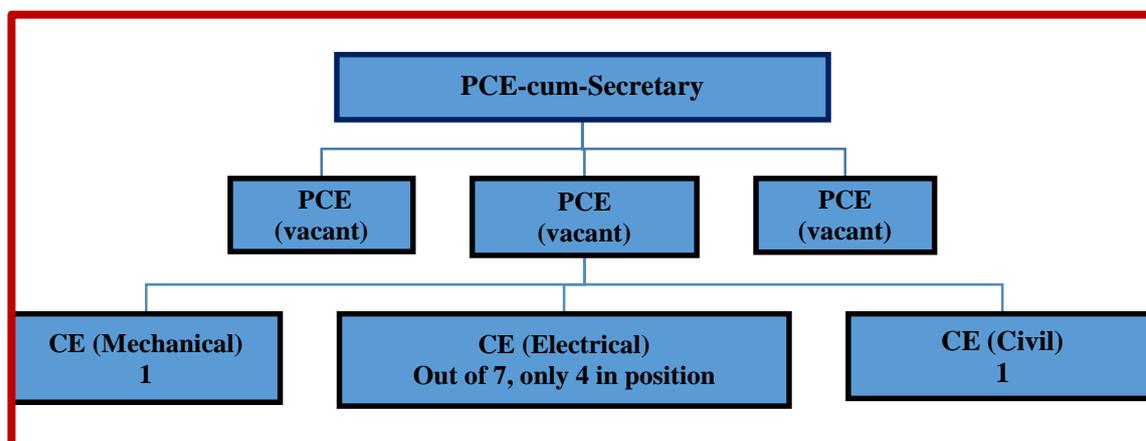
completed within three years from the date of sanctioning of the project. In such cases, the State utility concerned was bound to repay the entire loan amount along with the interest.

Part-B For all North Eastern States including Sikkim, the GoI was to provide loan to the extent of 90 *per cent* of the PFC approved project cost under Part-B of R-APDRP. The balance funds were, however, required to be arranged by EPD through own sources or through borrowings from Financial Institutions (FIs)⁴. To avail the benefit of conversion of GoI loan to grants, the State utility concerned was required to achieve the target of bringing down the AT&C loss to 15 *per cent* on sustainable basis, for five years besides completing the project within five years of its approval. The said benefit of conversion of loan into grant was to be provided in equal tranches every year for 5 years, starting one year after the year in which the base line data system of project area concerned was established and verified by the independent agency.

2.3.2 Organisational chart

The EPD was headed by the Principal Chief Engineer-cum-Secretary (PCE-cum-Secretary) who was assisted by PCEs, CEs and Additional CEs, etc. as shown in the **Chart-2.3.1**. The CE/Electrical (HQ) was appointed as the nodal officer for implementation of R-APDRP in the State:

Chart-2.3.1



The three posts of PCEs were created as part of restructuring of EPD, which was to be done under the power sector reforms. The said reforms envisaged for unbundling of EPD into separate companies for taking up the activities relating to generation, transmission and distribution of power in the State. Since GoS had not taken a decision on unbundling of EPD as envisaged under the power sector reforms, appointment to the above posts of PCEs was also pending.

2.3.3 Audit objectives

The objectives of the performance audit were to:

⁴ Namely PFC/Rural Electrification Corporation (REC)/multi-lateral institutions and/or own resources.

- assess the adequacy of funding and effectiveness of Financial Management;
- efficiency and effectiveness in the implementation of projects;
- adequacy of monitoring; and
- achievement of scheme objectives.

2.3.4 Audit Criteria

The audit criteria adopted for assessing the achievement of the audit objectives were derived from the following sources:

- R-APDRP guidelines;
- Quadripartite agreement entered between GoS, PFC, EPD and MoP;
- Sikkim Works Manual 2009;
- Schedule of Rates approved by State PWD;
- Terms and conditions of work contracts;
- Detailed Project Reports for the scheme;
- Guidelines issued by GoI/nodal agency for R-APDRP (PFC)/GoS.

2.3.5 Audit Methodology

The Performance Audit (PA) commenced with the entry conference on 27 May 2015 with the PCE-cum-Secretary, EPD where audit objectives and criteria were explained. The methodology adopted for attaining the objectives with reference to audit criteria consisted of scrutiny of records at EPD Office, interaction with the officials of the audited entity, physical verification of completed/on-going projects jointly with the EPD officials, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the officials of EPD and issue of draft PA report to EPD, Government of Sikkim (GoS) for comments. The findings of the Report were also discussed (2 November 2015) with the PCE-cum-Secretary of EPD and other officials of EPD in the exit conference. The formal replies of EPD as well as the views offered by the EPD in the 'exit conference' were considered while finalising this Report and the same appropriately included wherever necessary.

2.3.6 Scope of Audit

The present audit conducted during June 2015 to August 2015, covered the implementation of the scheme in the State during the period 2010-11 to 2014-15. The R-APDRP scheme in Sikkim had been implemented in two towns, viz. Gangtok and Upper Tadong. Under the two projects, Part-A works were completed (November 2013) while Part-B works under both the towns were ongoing (October 2015). Hence, the audit report covered the implementation of Part-A and Part-B works in these two towns.

2.3.7 Audit Findings

Audit findings relating to the implementation of R-APDRP in the State are discussed in the succeeding paragraphs:

Audit Objective-1: Funding and financial management

Funding

The funding mechanism for the scheme and the funds released there against are detailed in Table 2.3.1:

Table 2.3.1

(₹ in crore)

| Particulars | Part A | Part B |
|----------------------------------|-----------------------------|--|
| PFC approved project cost | 11.63 | 68.46 |
| Project Cost after tendering | 11.63 | 75.83 |
| Funding mechanism | 100 per cent funding by GoI | 90 per cent of PFC approved project cost funded by GoI. The balance 10 per cent plus tender premium, taxes and DPR preparation cost to be funded by GoS. |
| Amount of GoI funding | 11.63 | 61.61 |
| Amount of GoS funding | Not applicable | 14.22 |
| Amount released by GoI till date | 10.47 | 20.54 |
| Amount released by GoS till date | Not applicable | 5.00 |

2.3.7.1 Delay in release of counterpart funding by GoS

As per clause 5.2 of R-APDRP guidelines, 90 per cent of the Part-B project cost was to be provided by GoI and the balance funds were to be arranged by EPD/GoS from own sources or by availing borrowings from Financial Institutions (FIs)/multi-lateral institutions.

For implementation of R-APDRP scheme in Sikkim, EPD, GoS, MoP (GoI) and PFC signed (23 February 2010) a Quadripartite Agreement. As per Clause 5.3 of the agreement, EPD after adjusting the GoI funding to the project cost, should make necessary tie ups with PFC/REC/multi-lateral institutions and/or own resources for arrangements of the balance project funding within two months of sanction of the project.

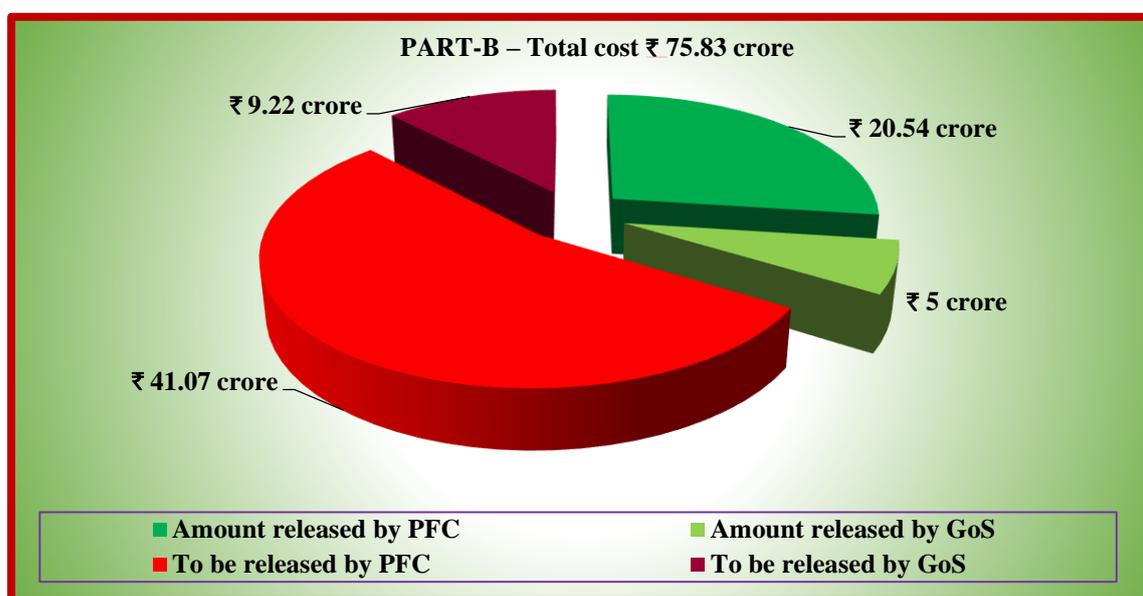
For implementation of Part-B projects under R-APDRP in two towns (Gangtok and Upper Tadong) of Sikkim, PFC approved a cost of ₹ 68.46 crore. Accordingly, GoI sanctioned (August 2010) ₹ 61.61 crore being its share of 90 per cent of the PFC approved project cost. After tendering, the project cost was revised to ₹ 75.83 crore. Hence, the balance amount of ₹ 14.22 crore⁵ should have been arranged by EPD through own resources or through borrowings from FIs, multilateral institutions, etc. Instead of initiating immediate steps to arrange the balance project funding through own resources/borrowings from FIs, etc., EPD preferred to avail the counterpart funding from GoS through budgetary allocation. EPD, however, could obtain (September 2012) commitment from GoS in this regard after a lapse of 25 months from the date (August

⁵ ₹ 75.83 crore - ₹ 61.61 crore = ₹ 14.22 crore.

2010) of GoI sanction. This had correspondingly delayed execution of R-APDRP projects in the State.

As per quadripartite agreement, 30 per cent of the PFC approved project costs were to be released by the GoI on sanction of project. Accordingly, GoI released (April 2011) ₹ 20.54 crore out of its share (₹ 61.61 crore) for implementation of R-APDRP in the State. The release of the balance amount of ₹ 41.07 crore from GoI was, however, depended on release of counterpart funding of ₹ 14.22 crore by GoS. During March 2014 to February 2015, EPD had received only ₹ 5 crore from GoS out of its committed share of ₹ 14.22 crore. The details of funding received by EPD from GoI/GoS against Part-B projects of R-APDRP are illustrated in **Chart-2.3.2** below:

Chart-2.3.2



As the EPD was yet (October 2015) to receive the balance counterpart funding of ₹ 9.22 crore from GoS, the release of the balance share of project funding (₹ 41.07 crore) from GoI had been stalled. As the entire amount of ₹ 25.54 crore received towards the Part B project works had been utilised for the works, non-release of balance funds of ₹ 50.29 crore by GoS (₹ 9.22 crore) and GoI (₹ 41.07 crore) had adversely affected the progress of Part-B project works.

The EPD stated (October 2015) that being a State Government Department, EPD could not raise funds/loans independently and it had to depend on GoS for the counterpart funding of the scheme.

However, it stands to reason that EPD as a Department of the State Government should actually have been prevailing upon GoS for timely providing of the counterpart funding so that balance project funding from GoI was available in time.

2.3.7.2 Additional interest burden due to diversion of borrowing to scheme works

To provide interest free advances to the Consultants⁶ appointed in respect of Part-A and Part-B works of the Scheme, EPD borrowed funds from the State Government owned company, Sikkim Power Development Corporation Limited (SPDCL). The funds available at SPDCL had been borrowed from PFC at 13 per cent interest rate leading to avoidable interest burden on the GoS as detailed in **Table-2.3.2**:

Table 2.3.2

(₹ in lakh)

| Date of borrowing | Amount borrowed | Date of repayment | Interest on ⁷ borrowing |
|---|-----------------|-------------------------------|------------------------------------|
| NPTI | | | |
| 23.03.2009 | 39.90 | Not repaid as of October 2015 | 34.29 |
| 19.03.2010 | 13.93 | Not repaid as on October 2015 | 10.14 |
| WIPRO | | | |
| 22.09.2009 | 7.72 | 13 October 2010 | 1.06 |
| 18.03.2010 | 23.16 | 13 October 2010 | 1.72 |
| Total additional interest burden | | | 47.21 |

The EPD accepted (October 2015) the facts and stated that the borrowed fund would be repaid on receipt of R-APDRP funds. Due to the diversion, there was an avoidable interest burden on GoS to the extent of ₹ 47.21 lakh.

Financial Management

A prudent financial management requires that all funds received are utilised economically, efficiently and effectively. The deficiencies noticed in the financial management of EPD in implementation of the scheme in Sikkim have been discussed in succeeding paragraphs:

2.3.7.3 DPRs prepared adopting unverified AT&C loss data

The GoI approved (19 September 2008) the R-APDRP as a Centrally Sponsored Scheme. Even before sanctioning of the scheme, however, EPD issued (6 September 2008) a work order in favour of National Power Training Institute (Consultants) for implementation of Part-A and Part-B works of the scheme. It was, however, observed that the Consultants were appointed by EPD without inviting any tenders in violation of the provisions of Sikkim Financial Rules. The consultancy fee for executing the above work was fixed at 1.6 per cent of the total cost of DPRs. The scope of the work order included the following:

1. Establishment of baseline data system.
2. Conducting study for improvement and strengthening/up-gradation/renovation/augmentation of existing power distribution system and other related issues to fulfil the objective of bringing down technical and commercial losses to 15 per cent.

⁶ Namely M/s WIPRO, Kolkata and National Power Training Institute (NPTI), an autonomous body functioning under MoP, GoI.

⁷ Interest on borrowed funds calculated at 13 per cent simple interest per annum from the date of borrowing to date of repayment or 31 October 2015 whichever is earlier.

3. Preparation of DPRs for each town separately.

Subsequently, an agreement was entered (14 November 2008) between EPD and the consultants wherein the scope of the work was reduced to preparation of DPRs for Part-B works only.

It was observed that the guidelines (December 2008) of R-APDRP did not allow the State Utilities to incur consultancy charges on preparation of DPRs for Part-B works out of the GoI scheme funds. Hence, the EPD had to seek (November 2010) the approval of GoS for allocation of funds out of the State budget to meet the consultancy charges (₹ 1.23 crore) incurred by EPD which was approved (September 2013) by GoS.

In this connection, following observations are made:

- The planned sequence of work and the actual sequence of work are illustrated in **Chart-2.3.3**. The DPRs were prepared utilising base line data of Aggregate Technical & Commercial (AT&C) loss which had been calculated manually by the Consultants without ring fencing⁸ and without being verified by an Independent Third Party Agency (ITPA). Ring fencing and verification of AT&C loss figure had been introduced in the R-APDRP scheme so that high AT&C loss feeders could be identified and works could be taken up after fixing priority in such areas. In the absence of ring fencing and verification of base-line data calculation, the DPR prepared by the Consultants had no realistic basis.

Chart 2.3.3

| PLANNED SEQUENCE | ACTUAL SEQUENCE |
|--|---|
| 1 •Fixing and verification of base line AT&C data | 2 •Preparation of DPR for Part B works (2010) |
| 2 •Preparation of DPR for Part B works | 1 •Fixing and verification of base line AT&C data (2011) |
| 3 •Commencement of Part B Works | 3 •Commencement of Part B Works (2012) |

- It was further observed that the actual work orders for execution of Part-B works in respect of Upper Tadong and Gangtok towns were issued (September 2012) after more than 40 months and 27 months of preparation (April 2009/May 2010) of DPRs for the two towns respectively. In the meantime, some components of works involving aggregate cost of ₹ 12.68 crore had already been completed by EPD under North Eastern Council funded project and therefore, same were excluded from the work scope of the project. Besides, EPD had also added certain new items of work involving equivalent cost (₹ 12.68 crore) in the project scope on the plea that the requirements for these works emerged subsequent to

⁸ The project area is electrically ring fenced. Ring fencing is done to measure net input energy (difference of energy entering into and leaving) the project area through installation import/export meters at the boundary of the project area.

preparation of DPRs and were necessary to fulfil the basic purpose of the scheme. EPD accordingly recompiled the DPR incorporating the above changes in the project scope without changing the overall cost estimates of the project. It was, however, observed that EPD had neither referred the above changes to the Consultants for their concurrence, nor had obtained formal approval of PFC/GoI for the revisions made in the DPR. In the absence of approval by PFC for the changes made in the DPR, it also could not be confirmed whether the said changes had any impact on the overall achievement of scheme objectives.

Thus, the DPRs prepared by EPD were unrealistic due to adoption of unverified data of AT&C losses. Further, the revisions made by EPD in the approved DPRs of the projects without approval of PFC/GoI was irregular.

The EPD stated (October 2015) that the Consultant, being a GoI undertaking, was aware of the R-APDRP scheme before its approval by the GoI and had approached EPD offering its consultancy service. The agreement was, however, entered only after the sanction of the scheme. As regards preparation of DPR before ring fencing and verification of base-line data, EPD accepted the audit finding and stated that the objective of the scheme had not been compromised. Regarding the changes made in the DPRs, it was stated that the gap in time and resultant change in site conditions necessitated revision in DPRs.

The fact, however, remained that to avail the intended benefits of the scheme, DPRs should have been prepared based on realistic and verified base-line data for achieving the intended benefits of the Scheme. Further, as per the Scheme conditions, it was mandatory for EPD to obtain approval of PFC/GoI for any revisions in the approved DPRs.

Audit Objective-2: Implementation of projects

Project Execution

Execution of the project finally determines the achievement of the scheme objectives. The deficiencies relating to execution of the project are discussed in the succeeding paragraphs:

2.3.7.4 Sub-contracting of works

A. EPD awarded (14 November 2008) the work of preparation of DPR for Part-B projects under R-APDRP to National Power Training Institute (NPTI) without following the tendering process. Clause 11.4 of the work contract stipulated that the agreement was personal to the parties to the agreement and that it should not be transferred or assigned wholly or in part by any party without the written consent of the other party.

It was, however, observed that contrary to the agreed terms of the contract, NPTI had assigned the contract to M/s Feedback Ventures Private Limited (sub-contractor) without obtaining the concurrence of EPD.

In reply, EPD stated (October 2015) that the sub-contracting of the work was not intimated to EPD and it was not aware of the same.

The contention of EPD regarding not being aware of the sub-contracting of the work is not tenable in view of the fact that in a meeting convened (16 March 2009) by EPD to discuss the status of preparation of DPR, the representatives of the sub-contractor were also present, as per the power point presentation made by NPTI to EPD.

B. The work of implementation of Part-B work pertaining to Upper Tadong was awarded (September 2012) to M/s Sinhal infrastructure (contractor). Clause 24 of the work contract stipulates that no part of the work should be assigned or sub-contracted by the contractor without the written approval of the Engineer-in-charge of EPD.

During the joint physical inspection (July 2015) of the works at Upper Tadong by the audit team and the officials of EPD, it was noticed that all the feeder panels that had been installed under the scheme, at 66/11 KV Switch Yard at 5th Mile and 11/11 KV Switch Yard at Deorali, had the name of the sub-contractor firm (M/s Pema Thupten Sherpa) instead of the Contractor (M/s Sinhal Infrastructure).

The fact remained that sub-contracting of the work without the consent of EPD could lead to quality issues apart from violation of the agreement.

In reply, EPD stated (October 2015) that the matter had been taken up with the Contractor.

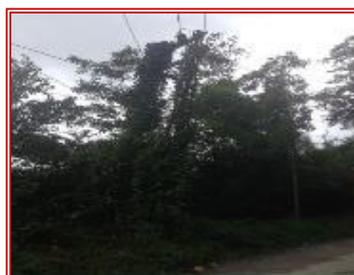
The replies are silent about why periodical inspections of the work were not carried out so that sub-contracting of scheme could have been deducted.

2.3.7.5 Treatment of old and dismantled assets not specified

As per clause 8.21 to 8.24 of the Works Manual, the account of dismantled old structure/assets should be maintained separately and recorded in the measurement book. Such dismantled assets should either be utilised on other works as far as possible or disposed of through tendering or auction. The indisposed balances of old and dismantled should also be physically verified once a year.

Under the R-APDRP scheme, various overhead lines had been converted into underground lines. Contrary to the provisions of the Work Manual, however, it was noticed that the old/replaced overhead lines and poles had not been dismantled/disposed of even after installation of underground lines in their place. It was further noticed that the work contracts entered into for the above works were also silent on treatment of the old/replaced assets. The following images illustrate non-dismantling of old and replaced assets:

Image 2.3.1



Old unused overhead cables

Image 2.3.2



Old unused steel lattice structures

Image 2.3.3



Old and unused Distribution transformer

In reply, EPD stated (October 2015) that due to fund constraints the dismantling of old structures could not be executed and some old structures were used for street lighting.

The reply is not tenable as non-dismantling of old assets could lead to possibility of damages/theft of assets and unnecessary occupation of space besides loss of potential revenue through disposal of said scrap.

2.3.8 Monitoring mechanism

Audit Objective-3: Monitoring

2.3.8.1 Distribution Reforms Committee not active

For the implementation of the R-APDRP scheme in Sikkim a quadripartite agreement was signed (February 2010) between EPD, MoP, GoS and PFC.

Clause 11.1(b) of the agreement stipulates that GoS should constitute a state level Distribution Reforms Committee (DRC) under the Chairmanship of the Chief Secretary/Principal Secretary/Secretary (Power/Energy) to monitor the implementation of projects under the R-APDRP scheme.

It was, however, noticed that though the DRC was constituted (2009) for monitoring of the project works, the same was non-functional since August 2009. In the absence of an active DRC, the monitoring of implementation of R-APDRP scheme was not effective leading to several deficiencies as discussed below:

A. Delay in completion of works

The works relating to Part A projects of R-APDRP were awarded (24 May 2011) to M/s Tata Consultancy Services (TCS) with scheduled date of completion as 23 May 2012. The works, however, could be completed (18 November 2013) after a delay of 18 months. Similarly, EPD awarded (14 September 2012) work contracts for implementation of Part-B works pertaining to Gangtok and Upper Tadong towns to Mr. Bishal Chamling and Sinhal Infrastructure respectively with scheduled date of completion as 13 September 2014. It was noticed that in spite of lapse of 14 months from the scheduled completion date (13 September 2014), the works were still pending for completion (October 2015).

The progress of work in respect of Part-B projects as of October 2015 is in **Table-2.3.3**:

Table 2.3.3

(₹ in crore)

| Particulars | Gangtok | Upper Tadong | Total |
|--------------------------------------|---------|--------------|-------|
| Contract value | 42.87 | 24.69 | 67.56 |
| Value of Work completed ⁹ | 13.15 | 17.34 | 30.49 |
| Percentage of completion | 30.67 | 70.23 | 45.13 |

As could be seen from the above, even after the lapse of more than one year from the schedule completion date (13 September 2014), only 45.13 per cent of Part-B works could be completed (October 2015). Due to delay in completion, there was a risk of not

⁹ As measured and billed.

availing the benefit of conversion of GoI loans into grants which could result in additional financial burden on the GoS in implementation of scheme.

In reply, EPD stated (October 2015) that the delay in completion of work was due to non-release of funds from GoS and consequential non-release of funds from PFC besides practical problems at site.

The reply is not tenable as existence of an effective DRC could have helped EPD in addressing the issues like delays in release of project funds and difficult site conditions, etc. through better co-ordination with GoS and effective monitoring of project works.

B. Non submission of Monthly Progress Report

As per Clause 13(f) of the scheme guidelines, EPD was required to submit the progress report on execution of project and utilisation of funds to PFC on monthly basis. It was, however, observed that EPD had not submitted any such report to PFC in respect of Part-B works of R-APDRP projects since beginning (September 2012). Non-submission of the monthly progress reports by EPD could have adverse effects on the monitoring of project works and utilisation of project funds at the level of PFC/GoI.

In reply, EPD stated (October 2015) that in the absence of requisition from PFC, EPD had not furnished any monthly progress report for Part-B works.

The reply is not tenable since EPD was required to submit the monthly progress reports as per the scheme guidelines without the insistence of PFC.

C. Non operation of separate bank accounts

As per clause 6.2 of quadripartite agreement, EPD was required to maintain separate bank accounts for effecting the financial transactions relating to Part-A and Part-B works of the scheme. The above provisions were aimed to ensure easy accounting, segregation and monitoring of expenditures incurred on two parts of the scheme. Contrary to the above stipulations, however, EPD had been operating all the financial transactions relating to Part-A and B works of the scheme through single bank account only. EPD informed (October 2015) that the matter of opening separate bank accounts for Part-A and Part-B works was taken up with GoS, but the same was not approved.

Thus, in absence of separate bank accounts for Part-A and Part-B works, the monitoring and control of EPD over the expenditure incurred on two works was difficult.

2.3.8.2 Ambiguity in scheme guidelines on payment of Consultancy charges

As per the scheme guidelines (December 2008), the towns and cities with population of more than 30,000 (more than 10,000 in case of Special Category States) only were eligible for implementation of the scheme. The scheme guidelines were, however, silent on the source of data to be considered for deciding on the population criteria in respect of towns or cities to be selected for implementation of the scheme.

Based on the available data on population of the cities/towns, EPD had identified total 13 towns for implementation of scheme. The work for preparation of DPRs for Part-A works

was awarded (February 2009) to M/s Wipro at a cost of ₹ 78.63 lakh in respect of selected 13 towns.

Subsequently, PFC issued (May 2009) directions to select the towns/cities for scheme implementation based on the population data as per the 2001 census. Accordingly, EPD instructed (03 June 2009) M/s Wipro to consider only Gangtok and Upper Tadong for the above work as only these two towns fulfil the required population criteria as per the 2001 census. By that time, however, Wipro had already (May/June 2009) prepared the site readiness report and the DPR in respect of all 13 towns originally envisaged for implementing the scheme.

Audit observed that due to ambiguity of scheme guidelines regarding the source of population data to be considered for selection of towns/cities, EPD had to incur an avoidable expenditure of ₹ 66.53¹⁰ lakh, being the consultancy fee paid for preparation of site readiness report and DPR for eleven ineligible towns.

In reply, EPD accepted (October 2015) the facts and confirmed that the guidelines did not specify the sourcing of population data.

The EPD, however, should have obtained necessary clarification from PFC regarding the source of population data to be considered for the selection of towns/cities for the scheme before awarding the work to the Consultants.

2.3.8.3 Absence of a functional State Electricity Regulatory Commission

One of the eligibility criteria for availing the GoI funding under R-APDRP scheme in any State was that the State Governments concerned must have constituted a State Electricity Regulatory Commission (SERC).

In exercise of the powers conferred by Section 17(1) of the Electricity Regulatory Commission Act 1988, the GoS issued (November 2003) notification constituting the Sikkim Electricity Regulatory Commission (SERC). It was, however, observed that although the SERC was constituted (November 2003), GoS appointed (April 2011) the Chairperson of the Commission after more than seven years of its formation. Thus, even after approval of Part-A and Part-B projects (September 2009/August 2010) under the Scheme, the SERC remained inactive for 18 and 7 months respectively in violation of the Scheme conditions.

2.3.9 Internal Control

2.3.9.1 Payment against uninstalled equipment

The work of implementation of Part-A project, involving IT related works, was awarded to M/s TCS Limited (TCS) at a contract value of ₹ 8.19 crore. The scope of work also included creation of a customer care centre (CCC) at a cost of ₹ 2.99 crore and involved installation of the following equipment:

¹⁰ ₹ 78.63 lakh for 13 towns. Avoidable expenditure for 11 towns = ₹ 66.53 lakh (78.63/13 x 11).

Table 2.3.4

(₹ in lakh)

| Sl. No. | Particulars | Quantity | Total cost |
|--------------|---|----------|-------------|
| 1 | Head set | 5 | 0.24 |
| 2 | Touch screen kiosk | 1 | 1.61 |
| 3 | Integrated Database Management System (IDMS) along with automatic token dispenser machine | 1 | 1.50 |
| 4 | Cash/cheque collection kiosk | 2 | 5.90 |
| TOTAL | | | 9.25 |

During the joint physical verification of the site undertaken (06 August 2015) by audit and EPD officials, the above mentioned equipment were not found delivered/installed by TCS at CCC. It was, however, observed that while releasing payment against the running bills of TCS, these equipments were considered to be installed by EPD.

Thus, EPD made payment of ₹ 9.25 lakh against uninstalled equipment without verifying the project site leading to excess payment to TCS besides defeating the scheme objectives.

In reply, EPD accepted (October 2015) the audit finding and stated that any excess would be adjusted in the final bill of TCS.

The reply confirmed the poor/ineffective monitoring of project works by EPD.

2.3.9.2 Dedicated IT team not formed

Information Technology (IT) wing of EPD was assigned with the works of resolving connectivity issues of leased line from BSNL. It was, however, observed that no dedicated IT team was created for R-APDRP and thus EPD was dependent on the IT implementing agency of the scheme (viz. TCS) for attending/addressing IT related issues of R-APDRP. The contract of TCS was also to expire after five years of date of system becoming operational (November 2013).

In reply, EPD stated that being a Government Department, it could not appoint any IT related staff directly and some of the engineers had been trained and assigned with IT implementing agency.

The reply is not tenable as EPD could not rectify any problems connected with the IT system and had to solely rely on the IT implementing agency for attending IT related issues.

2.3.9.3 Works Manual provisions ignored leading to excess payments

As per Chapter 2.49 (1) and (3) of the Works Manual, the running account bills of the contractors should be verified for arithmetical accuracy and correctness of rates with reference to contract agreement. The above checks were, however, not exercised before release of payments against contractor's bill leading to several instances of excess payments as discussed below:

A. Excess payment in violation of contract terms

For execution of Part-B works, the contracts were awarded at a tender premium of 10 per cent above SOR. As per the contract agreement, said 10 per cent premium was to be

computed on original work value put to tender without tax components, viz. VAT, environment cess and labour cess.

Scrutiny of running account bills of the Contractor revealed that EPD had paid 10 *per cent* tender premium on cost of work executed including VAT and cess components leading to excess payment to contractors to the tune of ₹ 34.08 lakh.

B. Labour cess not recovered

Section 3(1) and (2) of the Building and Other Construction Workers Welfare Cess Act, 1996 (BOCW) stipulate a cess at rates¹¹ as notified by the State Government(s) concerned. Further, the BOCW Cess Rules, 1998 stipulate that in case the building and other construction work pertains to Government or a Public Sector Undertaking, such Government or the Public Sector Undertaking concerned was required to deduct the cess amount from the bills of the contractors in respect of such works.

In violation of the above stipulations, the EPD did not recover the labour cess amounting to ₹ 13 lakh¹² from the Contractors bills and not remitted the same to the Labour Department leading to undue benefit to the Contractors of Part-B projects.

EPD stated (October 2015) that above issues were being looked into and if any excess payment had been made, the same would be recovered from the future bills of the Contractor's concerned.

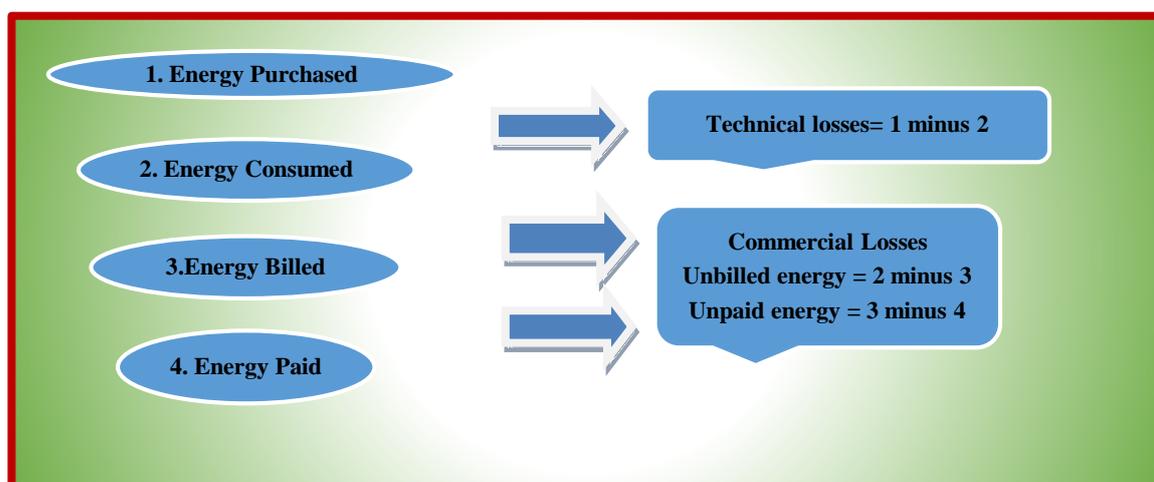
The fact, however, remained that non-compliance to the provisions of the works contract/BOCW Act led to undue benefit to the Contractors.

Audit Objective-4: Fulfilment of scheme objectives

Aggregate Technical and Commercial (AT&C) Loss

AT&C Loss is the sum total of technical and commercial losses and it included unrecovered dues against energy billed as illustrated in the chart below:

Chart-2.3.4 AT&C Loss components

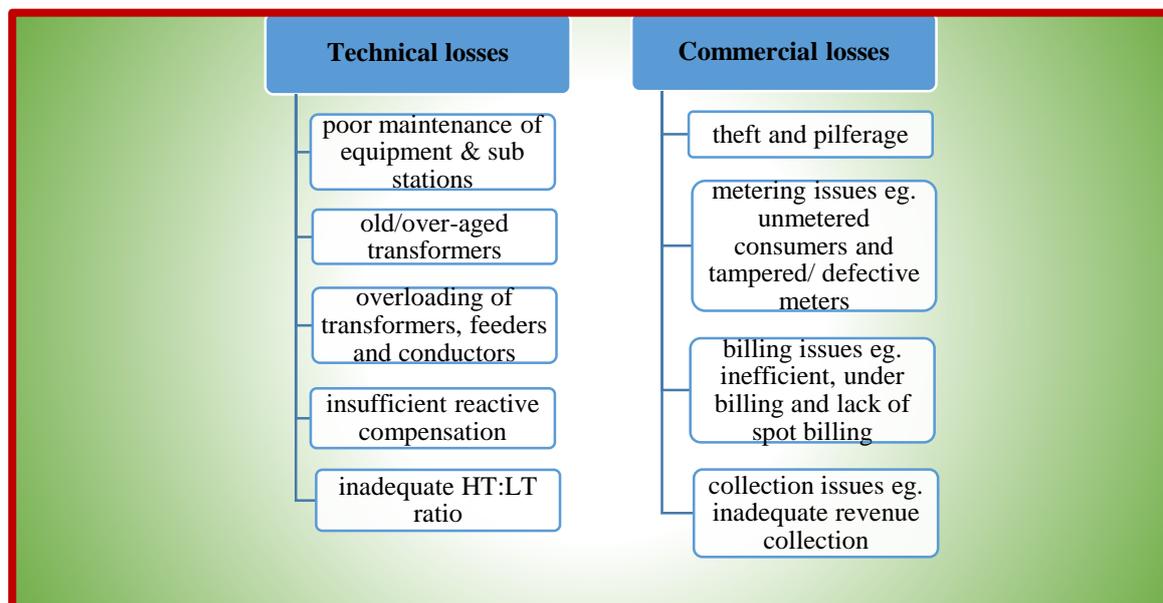


¹¹ Not exceeding two per cent and not less than one per cent.

¹² ₹ 11.93 lakh (Gangtok) and ₹ 1.08 lakh (Upper Tadong) worked out at the rate of 1 per cent (as notified (June 2009) by the State Government) on the cost of the works concerned.

Reasons for AT&C losses

Chart-2.3.5 Reasons for AT&C Losses



2.3.9.4 Achievement against AT&C loss targets

The R-APDRP scheme was introduced in the State during 2008 and the work on the scheme began in 2011-12. One of the primary objectives of R-APDRP was to reduce the AT&C loss. To avail the benefit of conversion of GoI loan (90 per cent of approved project cost) into grants relating to Part-B works, EPD was required to complete the Part-B projects within five years of sanctioning (August 2010) the Scheme for the State as well as bring down the AT&C loss to the level of 15 per cent on sustainable basis continuously for a period of five years. As already discussed under Paragraph 2.3.8.1 *supra*, the Part-B works of the project could be completed to the extent of 45.13 per cent only and same were still ongoing (October 2015).

The summarised details of the targets envisaged under the scheme regarding AT&C loss and revenue realisation vis-à-vis the actual achievements of EPD there against as of 2014-15 have been given in **Table-2.3.5**.

Table 2.3.5

| Particulars | Units | Base Year 2011-12 | | 2014-15 with envisaged 15 per cent AT&C losses | | 2014-15 with actual AT&C losses | |
|--|--------------|-------------------|--------------|--|--------------|---------------------------------|--------------|
| | | Gangtok | Upper Tadong | Gangtok | Upper Tadong | Gangtok | Upper Tadong |
| Total input (units) | MUs | 66.00 | 41.00 | 66.00 | 41.00 | 66.00 | 41.00 |
| AT&C losses | % | 59.12 | 46.17 | 15 | 15 | 36.97 | 34.32 |
| Total units for which revenue realised | MU | 26.98 | 22.07 | 56.10 | 34.85 | 41.60 | 26.93 |
| Average tariff | (₹ per unit) | 3.57 | 3.77 | 3.57 | 3.77 | 3.57 | 3.77 |
| Total realisation | (₹ in crore) | 9.63 | 8.32 | 20.04 | 13.13 | 14.85 | 10.15 |

In this connection, following observations are made:

- A. The conditions of the scheme for conversion of the loan into grants stipulated that if the utility achieves and sustains the 15 *per cent* AT&C loss continuously for a period of five years, after the grace period of one year, one fifth of the 90 *per cent* loan shall be converted into grant each year from the year 2012-13 (for Sikkim) onwards. As could be noticed from the table above, however, EPD could bring down the AT&C loss in respect of two towns to 36.97 (Gangtok) and 34.32 *per cent* (Upper Tadong) only for the year 2014-15 as against the envisaged target of 15 *per cent*. As the EPD did not complete the Part-A works till November 2013, the system generated data on AT&C losses was not available for 2012-13 and 2013-14.
- B. The DPR for Part-B of the scheme envisaged increase in revenue realisation by ₹ 10.41 crore in the third year of implementation by 2014-15 in respect of Gangtok town. This could have been achieved by bringing down the level of AT&C loss figure to 15 *per cent* (2014-15). As against this, however, the actual increase in revenue realisation during 2014-15 was only ₹ 5.22 crore (50 *per cent*). Similarly, in Upper Tadong, as against the envisaged increase of ₹ 4.81 crore in revenue realisation during 2010-11 to 2014-15, EPD could achieve the increase of ₹ 1.83 crore (38 *per cent*) in revenue realisation during 2014-15.

Thus, due to non-completion of the project works within five years of sanctioning (August 2010) of the scheme for the State as well as failure in achieving the targeted level of AT&C loss during the first five years of scheme implementation, EPD was not likely to get the benefit of conversion of GoI loan into grants.

During the exit conference (November 2015), EPD stated, that it was making efforts for improving the revenue realisation and bringing down the AT&C losses as envisaged in the scheme. It was further stated that there had been a significant reduction in AT&C loss from the base line year to 2014-15.

The reply is not tenable as although the AT&C loss figure had been reduced, the scheme objective of achieving 15 *per cent* AT&C loss figure had not been achieved by EPD. Besides, EPD had also failed to complete the Part-B works within five years of sanctioning (August 2010) of the Scheme, which was also one of the pre-conditions to avail the benefits of GoI grants. Hence, possibility of conversion of loan into grants stands remote.

Billing Efficiency

2.3.9.5 Short levy of surcharge

As per the electricity Tariff order, the consumers with outstanding dues were liable to pay surcharge at the rate of 10 *per cent* (LT consumers) or 15 *per cent* (HT consumers) on the amount of dues pending as on 31 March every year. Audit observed short levy of surcharge aggregating to ₹ 19.73 lakh in two sub-divisions as detailed below:

i) Deorali sub-division

Considering two months for the billing process, consumers should normally be levied surcharge on the balance outstanding as on 31 March excluding the dues pertaining to the months of February and March. It was, however, observed that while calculating the amount of surcharge for 2014-15 in Deorali Sub-Division, EPD had wrongly excluded the dues pertaining to three months instead of two months from the outstanding closing balance as on 31 March 2015. As a result, there was short levy of surcharge to the tune of ₹ 11.16 lakh in respect of consumers under High Tension Supply and Bulk Supply categories.

EPD accepted (October 2015) the audit finding and stated that it would work towards better billing efficiency.

ii) Gangtok Division

Similarly, in Gangtok sub-division, Audit noticed short levy of surcharges due to adoption of incorrect closing balances and wrong calculation. The Sub-division levied in aggregate ₹ 5.58 lakh as surcharge from four consumers instead of levying the correct amount of ₹ 14.15 lakh leading to short levy of surcharge by ₹ 8.57 lakh.

Further, the actual outstanding dues¹³ as on 31 December 2014 in respect of the above four consumers was ₹ 1.17 crore, however, the dues reflected in the demand register was only ₹ 1.06 crore which showed a difference of ₹ 11.05 lakh. This may be verified and rectified in the Demand Register.

In reply, EPD stated (October 2015) that the matter would be examined by the revenue division.

Collection Efficiency**2.3.9.6 No disconnection in cases of non-payment of dues**

As per the conditions of supply contained in the Tariff orders, if the consumer fails to pay the bills raised within the due date, the EPD is empowered to disconnect the power supply. It was, however, observed that the Department continued power supply to the defaulted consumers even though no amount was paid against the arrears and subsequent bills. Audit observed that during the period of five years (2010-11 to 2014-15) covered under the Report, there was no instance of disconnection of power supply to consumers on account of delay or non-payment of bills. The Department needs to strictly enforce the payment terms and conditions as contained in the Tariff order and take appropriate action for the recovery of dues from defaulting consumers.

EPD stated that (October 2015) steps had been initiated for disconnection of power supply to defaulters.

EPD should put an effective system in place for timely recovery of dues and disconnection of supply to defaulters so as to improve collection efficiency and financial health of the Department.

¹³ *Opening balance + surcharge + bills raised less realisation during April 2014 to December 2014.*

Consumer Metering

The scheme envisaged provision of tamper-free electronic meters to all consumers in the scheme area. In this connection, the following observation is made:

2.3.9.7 Slow progress in the installation of Electronic Meters

To check meter tampering and get accuracy in reading, EPD had proposed to replace the old electro-mechanical meters with new electronic meters under R-APDRP. Accordingly, M/s Unicorn Enterprises was issued supply order for supply of 13,396 electronic meters which had been delivered (September 2013). The work of replacement of old meters with new electronic meters was taken up (November 2013) by EPD departmentally. It was, however, observed that even after a lapse of 24 months, only 28 per cent of old consumer meters could be replaced by EPD in Upper Tadong (October 2015). The data regarding installation of electronic meters was not furnished in respect of Gangtok.

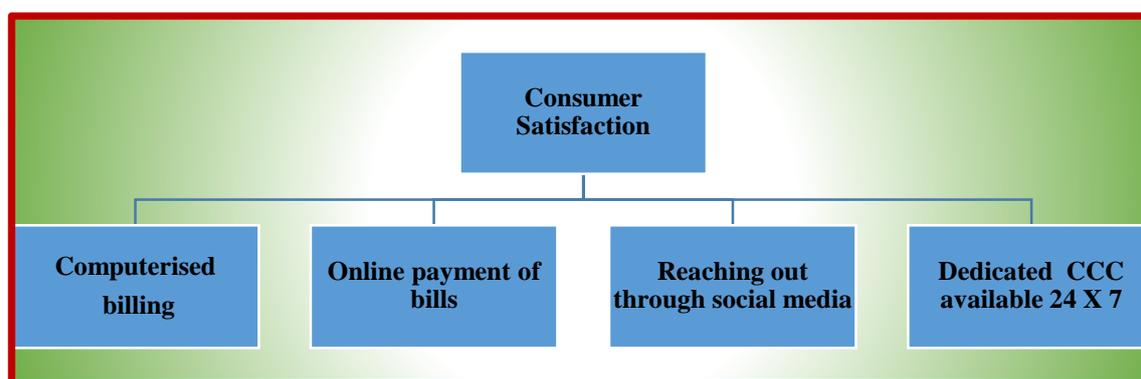
EPD stated (October 2015) that the replacement of old meters had been done very cautiously to avoid any public outrage and assured that the same would be completed by December 2015.

The reply is not tenable as the scheme guidelines stipulates that the utilities had to award all R-APDRP projects on turnkey basis in order to maintain a rigid completion schedule and single point responsibility. Due to taking up the metering work departmentally EPD could not maintain a rigid completion schedule thereby adversely affecting AT&C loss.

Consumer satisfaction

Sikkim is a power surplus State and the EPD has taken following initiatives to increase the consumer satisfaction in areas covered under the R-APDRP.

Chart-2.3.6 Consumers satisfaction activities undertaken by EPD



The R-APDRP scheme envisaged the establishment of a Customer Care Centre (CCC) under the Part-A projects for resolving billing complaints, complaints regarding power shut down and providing relevant information for all customers of EPD residing at Gangtok and Upper Tadong. In this connection, the following observation is made:

2.3.9.8 Defeat of intended purpose of CCC created at a cost of ₹2.99 crore

As of September 2015, the State had only one full-fledged Customer Care Centre (CCC) which commenced functioning from November 2013. The CCC was created at a cost of

₹ 2.99 crore under Part A of R-APDRP scheme to cater to the customers of Gangtok and Upper Tadong.

The function of the CCC was to receive complaints from consumers and pass on the same to the maintenance division concerned for rectification. On receipt of a complaint, the complaint would be recorded in the call logger and complaint/ docket number generated. Subsequently, the details of the complaint were also to be provided to the complainant for future reference. This complaint number would be closed on rectification of the complaint.

Audit observed that during the period from November 2013 to 30 October 2015, the CCC had received only 113 calls. It was further noticed that from March 2015 onwards, the CCC had not been able to generate any docket numbers for the complaints lodged with CCC. Besides, the information provided by CCC to the customers was very limited mainly due to deficiency in the system to properly interact within the modules.

In reply, EPD stated (October 2015) that the operations of CCC had been widely publicised in local dailies along with toll free numbers for registering complaints. The issue of non-generation of docket numbers and absence of interaction within modules had been taken up with the IT implementing agency of the project.

The reply is not tenable as even after the lapse of more than two years after the CCC became operational, the functioning of the CCC was not effective due to persisting deficiencies in the software.

2.3.10 Conclusion

- *Due to delay in release of counterpart funding by Government of Sikkim (GoS), Government of India (GoI) also stalled further release of its share of project funding causing adverse impact on implementation of the Scheme in the State. Detailed Project Reports (DPRs) prepared for Part-B project works were unrealistic due to adoption of unverified data of Aggregate Technical & Commercial (AT&C) losses. Further, EPD made changes in the approved DPRs of the project without the approval of the Scheme nodal agency, viz. Power Finance Corporation Limited (PFC)/GoI in violation to the Scheme conditions.*
- *The implementation of the project by EPD was found to be deficient. Instances of sub-contracting of project works by the contractors were noticed in violation to the contract terms. Further, contrary to the provisions of the Work Manual, EPD did not plan for dismantling and disposal of the replaced assets leading to possibility of damages/theft of these assets and unnecessary occupation of the available space.*
- *The monitoring mechanism of EPD for monitoring of the project works was not effective due to absence of an active State Level Distribution Reforms Committee (DRC) as well as non-submission of Monthly Progress Reports to the PFC/GoI. As a result, the Part-A works of the project were completed with delays of 18 months while the Part-B works could be completed to the extent of*

45.13 per cent only even after lapse of more than one year of the scheduled completion date (September 2014).

- *As against the envisaged target of reducing the AT&C losses to the level of 15 per cent for a continuous period of five years, EPD could bring down the AT&C losses in respect of two cities (Gangtok and Upper Tadong towns) covered under the scheme to 36.97 and 34.32 per cent respectively during the first five years of scheme implementation. Due to failure in achieving the targeted level of AT&C loss as well as non-completion of the Part-B project works within five years of sanctioning (August 2010) of the Scheme, EPD was not likely to get the benefit of conversion of GoI loan into grants under the scheme. The progress of installation of consumer electronic meters by EPD was also slow due to taking up the work departmentally.*

2.3.11 Recommendation

- **EPD needed to effectively pursue with GoS for release of counterpart funding well in time so as to implement the scheme without further delay.**
- **Strict compliance to scheme guidelines as well as the contract terms may be ensured for efficient and effective implementation of project. EPD needed to take appropriate action on any deviations noticed on part of the contractors to the agreed terms of the work contract.**
- **An active State Level Distribution Reforms Committee needed to be in place to ensure effective monitoring of project works and achievement of scheme objectives as well as safeguarding of assets. EPD should also ensure regular submission of monthly progress reports to Power Finance Corporation/GoI for centralised monitoring of the work progress and utilisation of scheme funds.**

HORTICULTURE AND CASH CROP DEVELOPMENT DEPARTMENT

2.4 Horticulture Development in Sikkim

The Horticulture and Cash Crop Development Department was mandated for development of horticulture in the State. The Department mainly implemented (i) Horticulture Mission for North Eastern and Himalayan States, (ii) National bamboo Mission, (iii) National Mission for Micro Irrigation, and (iv) National Mission for Medicinal plants. Performance Audit for the period 2010-15 disclosed that the Department had achieved the target in full except during 2014-15. In overall terms, area under cultivation, production and productivity of various crops registered marginal

increase during 2010-15. The Department had to its credit a number of success stories in establishing the livelihood of some of the farmers in floriculture, vegetable, etc. paving way for economic upliftment of the farmers. The beneficiary survey of the farmers by Audit disclosed that the farmers were satisfied by the support and assistance extended by the Department. The farmers however, were dependent upon the Department for continuance in farming.

Regarding planning we noticed during the course of the Performance Audit that the Perspective Plan was not available in the Department to provide strategic road map for development. Annual Action Plans did not accompany project report of each district and assessment of export potential and detailed quantification of all inputs and outputs. The Department had not constituted a Technical Support Group for rendering expert advice towards implementation of horticulture programmes, IT Policy was neither adopted nor website of the Department launched in a full-fledged manner for dissemination of information to public. The Department had not initiated action to conduct Horticulture census to obtain accurate, reliable and relevant horticulture database for integration of markets.

Programme implementation of Horticulture Mission for North East and Himalayan States (HMNEH) revealed that three Centers of Excellences (COEs), with the objective to grow more from less areas, were established in farmers' field instead of being set up on Government farm as envisaged. In case of National Mission on Micro Irrigation, although the Department had achieved physical target of 43.63 ha during 2010-15 the perspective plan to provide road map for micro irrigation technology was not formulated.

Under National Mission on Medicinal Plants (NMMP), though the Department stated to have carried out base line survey and feasibility studies to determine potential and demand the survey report, etc. was not made available to Audit. The Department had neither maintained details of seedling grown and supplied by each of the nurseries nor initiated adequate measures to ensure end to end approach, especially post-harvest management to enable the farmers to sell their produce.

Although the monitoring of the schemes/programmes were carried out by departmental officers, the monitoring schedules were not drawn up and efforts were therefore adhoc and erratic. The monitoring reports were not maintained for verification and initiating corrective actions, if any. Evaluation studies of various programmes were not attempted by the Department through independent agencies to assess the extent of success of the programme.

Highlights

The Perspective Plan of the Department was not available to provide strategic road map for development and the Annual Action Plans did not accompany project report of each district and assessment of export potential and detailed quantification of all inputs and outputs.

(Paragraph-2.4.7.1 and 2.4.7.2)

Integrated Floriculture Pack House constructed at a cost of ₹ 1.52 crore in May 2008 was not yielding value for money towards the project objective of collecting, sorting, grading, preserving, weighing and packing cut flowers for export.

(Paragraph-2.4.9.4)

The Department had not initiated action towards post-harvest collection, preservation-cum-storage, processing and marketing of bamboo crop and bamboo based products to provide stable and regular farm income to the farmers, provide employment and livelihood security to artisans, and others despite incurring ₹ 26.29 crore towards plantation and maintenance of bamboo crop during 2006-15.

(Paragraph-2.4.10.1)

The Department had neither drawn up inspection/monitoring schedules nor maintained these reports for verification and initiating corrective actions. Similarly, evaluation studies of various programmes through independent agencies to assess the extent of success of the programme were not initiated by the Department.

(Paragraph-2.4.13)

2.4.1 Introduction

Sikkim is basically an agrarian State with 64 *per cent* people dependent on Agriculture and allied activities. The State had limited area of operational holdings of about 1,00,000 hectare for agricultural/horticultural crops and the net cultivated area was around 70,000 hectare, agriculture/horticulture sector contributing approximately 15 *per cent* of total GSDP. The State Government had accorded priority to the horticulture sector with a view to attain higher levels of rural prosperity by adopting the policy of growth with sustainability for higher income generation to farming community. The concentration was on securing maximum production of horticulture crops and managing primary agro-resources like soil, water and bio-diversity. Large cardamom, ginger and turmeric are the major spice crops, while mandarin orange, guava, mango, banana are the principal fruits grown in the State. Sikkim is also a paradise for flowers. Gladioli, anthuriums, lilliums, primulas, rhododendrons, orchids as well as many other floral species thrive here. The Department of Horticulture and Cash Crop Development (HCCDD) is involved in motivating and providing technical guidance to local farmers and taking forward the mission of the Government towards Horticulture Development in Sikkim. In the process, the Department had initiated steps to strengthen existing horticulture infrastructure, availability of inputs and technological know-how to the farmers.

2.4.2 Scope of audit

Performance Audit on Horticulture Development in Sikkim, covering a period of five years (2010-15) was conducted during July-August 2015 through test check of records in Head Office of HCCDD and all four districts covering 30 *per cent* of the expenditure. 12 Blocks were selected on two stage sampling basis for audit scrutiny. In the first stage, all

the blocks were categorised district-wise and in the second stage 12 blocks (out of 31) (indicating 40 *per cent*) were selected covering each district on simple random sampling basis without replacement (SRSWOR). During audit various activities relating to the schemes, *viz.* (i) Horticulture Mission for North East and Himalayan States (HMNEH), (ii) National Bamboo Mission (NBM), (iii) National Mission for Medicinal Plants (NMMP) and (iv) National Mission for Micro Irrigation (NMMI) were examined. The records relating to Food Security and Agriculture Department were also examined in West and East districts to assess its synergy with HCCDD and to verify overlapping, if any, in implementation of schemes.

2.4.3 Audit objectives

The Performance Audit was conducted with the objective of assessing whether:

- Overall planning for Horticulture Development in the State was adequate, effective and participative;
- Financial management was economic and efficient;
- Programme management was efficient and effective;
- The various schemes, programmes and plans had the desired impact; and
- Monitoring, evaluation and internal control mechanism were adequate and effective.

2.4.4 Audit criteria

Audit findings were benchmarked against the criteria in the following documents:

- National Horticulture Policy;
- Sikkim Horticulture Plan, Annual Reports of the Department;
- Scheme Guidelines issued by the Government of India/State Government;
- Guidelines/instructions issued by the Ministry of Agriculture and Co-operation, Department of Horticulture, GoI/State Government;
- Directions issued by the Secretary, HCCDD, Government of Sikkim
- Sikkim Financial Rules;
- Schedule of Rates, Sikkim Public Works Department Code and Manual; and
- Prescribed monitoring mechanism.

2.4.5 Audit methodology

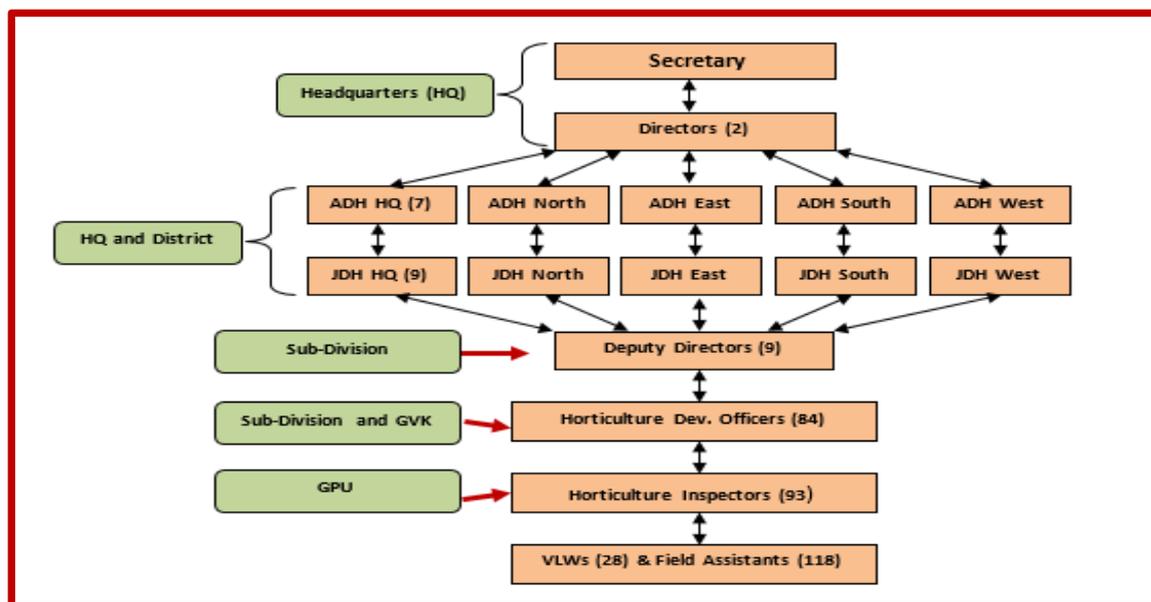
The Performance Audit commenced with entry conference (1 July 2015) with the HCCDD wherein audit objectives, scope of audit, audit methodology and audit criteria were explained. Audit process included issue of requisitions for information/data/records,

scrutiny of records and analysis of information/data followed by framing of audit observations. Physical verification of government farms and farmers field was conducted. Beneficiary survey involving 100 farmers spreading over all four districts was also carried out to ascertain the extent of support received from the Department and also the constraints encountered by them. The report was prepared after incorporating replies tendered by the Department during the course of Performance Audit. The audit findings were discussed in an Exit Conference (October 2015) with the Secretary, HCCDD and the report was finalised duly taking into consideration the views of the Department.

2.4.6 Organisational set-up

The Department of Horticulture and Cash Crop Development (HCCDD) is headed by the Secretary, who is assisted by Directors (2), Additional Directors (11) and Joint Directors (13) in districts who in turn are assisted by Deputy Directors, Horticulture Development Officers and Horticulture Inspectors as shown in the chart below:

Chart 2.4.1



Audit findings

The results of Audit are enumerated in succeeding paragraphs:

2.4.7 Planning

*Audit Objective-1:
To assess whether overall planning for horticulture development in the State was adequate and effective.*

The Department undertook various activities under different schemes to expand the area under coverage, enhance production and improve upon productivity. These *inter-alia*

included creation of water sources, distribution of seeds/seedlings to farmers, technology transfer through training and demonstration, infrastructural and marketing support. Adequate planning was therefore a prerequisite for achievement of scheme objectives. The observations in this regard are detailed below:

2.4.7.1 Perspective Plan

Operational Guidelines of Mission for Integrated Development of Horticulture (MIDH) (Para-4.8(a) and 5.1) stipulate that State level agency shall prepare Strategic/Perspective and annual State Level Action Plan (SLAP) in consonance with Mission's goals and objectives in close co-ordination with Technical Support Group (TSG), State Agriculture Universities (SAUs), ICAR institutes and oversee its implementation. The plan should invariably contain information on geography and climate, potential of horticulture development, availability of land, analysis of strength weaknesses opportunities and challenges (SWOC), strategy for development and plan of action proposed to be taken to achieve goals in each district of the State. The document should focus on crops having comparative advantages and natural potential for development in the State, adoption of cluster approach for production and linking with available infrastructure, post-harvest management, processing, marketing and export.

The Department stated (July 2015) that Perspective Plan and strategic road map was prepared during 1995-96 by Agriculture Finance Corporation India Limited and updated through regular modification in the form of vision documents. This was obviously only of vintage value. However, a current Perspective Plan was not made available to audit and its existence was unlikely and definitely unknown to most stakeholders. Audit could not therefore, obtain assurance that strategies adopted by State Horticulture Mission (SHM) were in accordance with the main objectives cited in the perspective plan and as per the strategic road map.

2.4.7.2 Annual Action Plan

The Operational Guideline of HMNEH required the Department to draw up Annual Action Plan (AAP) after approval from the State Level Steering Committee (SLSC). The AAP should incorporate requirements under various schemes for execution and be accompanied by project reports of each district. However, audit observed that:

- The Department had prepared an AAP for submission to GOI but it was not accompanied with project report of each district as required under the guideline. It was also devoid of assessment of export potential and detailed quantification of all inputs and outputs as prescribed in the guidelines.
- Further, the AAP was not supported by data/write-up on outcome of past interventions, covering the details of area expansion, water resource development, integrated nutrient management (INM)/integrated pest management (IPM) and Organic farming as required under the guideline. Therefore, it was sketchy, lacked comprehensive analysis and was not result oriented.

The Department stated (October 2015) that efforts would be initiated to improve the AAP duly incorporating all details on quantification of inputs, impacts of past interventions, lessons learnt and future strategy.

2.4.7.3 Constitution of Technical Support Group at State level

The Operational Guideline of HMNEH stipulated constitution of Technical Support Group (TSG) through engaging technical persons and experts to advice, formulate, appraise and to monitor the implementation of programmes. The technical persons and experts should comprise of Mission - I (Research), II (Production and Productivity improvement), III (Post-Harvest Management, Marketing and Export) and IV (Food Processing Unit).

It was noticed that the Department did not constitute TSG. As a result, the Department was devoid of expert advice from TSG. The Department stated (July 2015) that experts having technical proficiency were engaged as and when required for specific period and maximum benefits derived from their experience. However, verification in Audit revealed that details of such engagements and opinion and advice rendered, if any, by the experts were neither documented by the Department nor was there any indication to establish that those advices were put to use.

The Department stated (October 2015) that TSG at the State level would be constituted during next year (2016-17).

2.4.7.4 Constitution of District Mission Committee

The Operational Guidelines (Para-4.9) for MIDH for 12th Plan period stipulated constitution of District Mission Committee (DMC) for carrying forward the objectives of the Mission for project formulation, implementation and monitoring. The guidelines also stipulated (Para-4.10) involvement of the District Planning Committee and Panchayati Raj Institutions in implementation of the programme.

Audit found that DMC was constituted in 2010-11 in three (Out of 4) districts (West, South and East) consisting of members from various departments of district with District Collector as Chairperson. However, notification depicting constitution of DMC was not published. The details of meetings of the Committee, its minutes, etc. were not available on record. Therefore, Audit could not vouch for either the existence or effectiveness of functioning of the Committee.

The Department assured (October 2015) that efforts would be initiated to improve the functioning of the Committee.

2.4.7.5 e-Governance not brought in

HMNEH, an important scheme for Horticulture development under implementation in the State envisaged for adoption of Information Technology (IT) for dissemination of horticulture related information through website by establishing hyper linkages with other Departments, Ministries and Organisations. Audit noticed that the Department had neither adopted IT Policy nor launched its website in full-fledged manner for dissemination of information to public as envisaged in the Mission guidelines.

The Department stated (August 2015) that the task of designing the website on content management based concept had been taken up (October 2014) by Department of Information Technology. The approval of the Department would be given after final presentation of web site by CRTI - an autonomous body under IT Department, Government of Sikkim. This indicated that very low priority was being accorded to this important activity.

2.4.7.6 Horticulture census not initiated

In view of globalisation and integration of markets and increasing demand for accurate, reliable and timely horticulture database, the Department of Agriculture and Co-operation (DAC), GOI instructed (August 2009) State Directorate of Horticulture for sending proposal for financial support for conducting Horticulture Census.

Audit noticed that the Department had neither sent any proposal to DAC, GOI for financial support nor initiated any action to conduct Horticulture census as of March 2015. As a result, HCCDD was devoid of accurate, reliable and relevant horticulture database.

The Department stated (October 2015) that Agency engaged in conducting Agriculture census would be entrusted with the census of Horticulture as well.

2.4.7.7 Base line survey

The Operational Guideline (Para-7.2) for MIDH stipulated for carrying out base line survey. The survey would *inter-alia* include data/information on area, production and productivity.

Two (out of 4) districts (East and South districts) claimed to have conducted base line survey in compliance with MIDH guidelines. However, copies of survey were not made available to Audit. Therefore, the existence of data/information on area, production and productivity at State level could not be verified in Audit.

The Department stated (October 2015) that provision has been kept for baseline survey during 2015-16.

2.4.8 Financial management

Audit Objective-2:

To assess whether financial management was economic and efficient.

2.4.8.1 Budget provision, expenditure and surrenders

According to Sikkim Financial Rules (Rules 75 and 76), the budget of the Department was to be prepared based on inputs received from the field offices. It was however, noted that the budget was prepared centrally in Head Office of HCCDD without obtaining inputs from the field offices. It was noticed in Audit that Non-Plan budget was prepared on the basis of anticipated expenditure based on the instructions issued by the State Finance Department. The Plan budget was prepared based on the lump-sum amount allocated by Development, Planning, Economic Reforms and North Eastern Council

Affairs Department (DPNERCAD). In case of Centrally Sponsored Schemes, budget provision was made under supplementary budget after funds were released by GOI.

The budgetary allocation and expenditure there against during 2010-15 was as under:

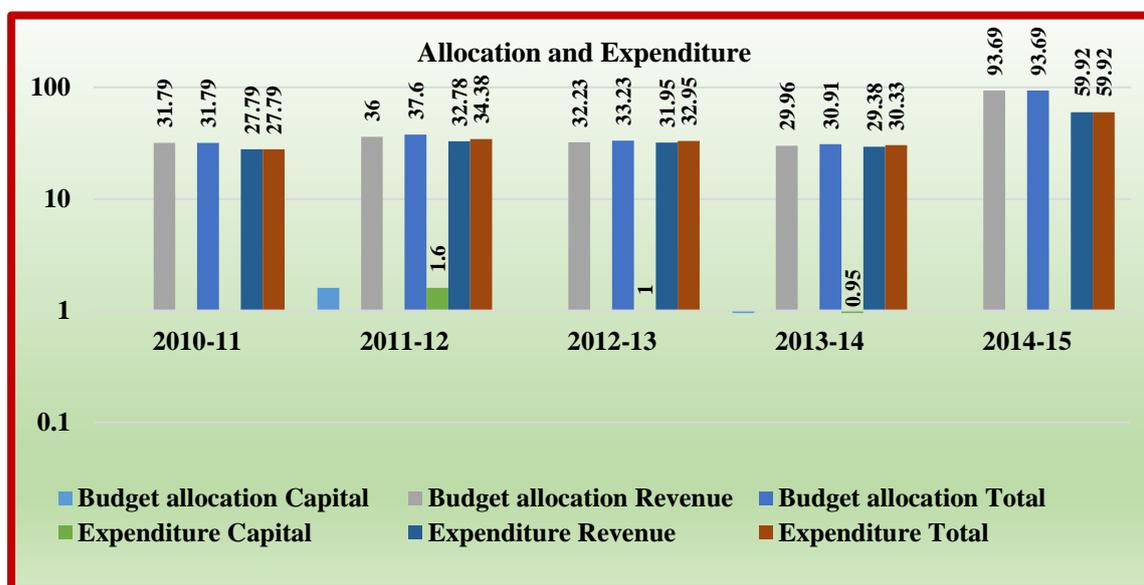
Table 2.4.1

(₹ in crore)

| Year | Budget allocation | | | | | Expenditure | | | Excess(+) / Savings (-) | |
|--------------|-------------------|-------------|---------------|--------------|---------------|-------------|---------------|---------------|-------------------------|---------------|
| | Capital | | Revenue | | Total | Capital | Revenue | Total | Capital | Revenue |
| | O | S | O | S | | | | | | |
| 2010-11 | 00 | 00 | 31.02 | 0.77 | 31.79 | 00 | 27.79 | 27.79 | 00 | (-) 4.00 (13) |
| 2011-12 | 00 | 1.60 | 17.21 | 18.79 | 37.60 | 1.60 | 32.78 | 34.38 | 00 | (-) 3.22(10) |
| 2012-13 | 1.00 | 00 | 32.23 | 00 | 33.23 | 1.00 | 31.95 | 32.95 | 00 | (-) 0.28(1) |
| 2013-14 | 0.95 | 00 | 29.96 | 00 | 30.91 | 0.95 | 29.38 | 30.33 | 00 | 0.58(2) |
| 2014-15 | 00 | 00 | 93.69 | 0 | 93.69 | 00 | 59.92 | 59.92 | 00 | (-)33.53(36) |
| TOTAL | 1.95 | 1.60 | 204.11 | 19.56 | 227.22 | 3.55 | 181.82 | 185.37 | | |

Source: Details Appropriation Accounts; O= Original and S = Supplementary; Figure in brackets indicate percentage.

Chart 2.4.2



Audit noticed the following:

- While savings varied from 1 to 13 per cent during 2010-11 to 2013-14, it increased to 36 per cent in 2014-15 (revenue expenditure).
- Although supplementary provision of ₹ 0.77 and ₹ 18.79 crore under revenue during 2010-11 and 2011-12 was sought, actual expenditure was less than the total funds available. This led to savings of ₹ 4 crore and ₹ 3.22 crore during 2010-11 and 2011-12 respectively. This indicated that supplementary provisions was obtained without actual requirement.

The Department stated (October 2015) that the supplementary grants were sought for execution of various works/programme of the Department, which could not be implemented on time due to non-receipt of resources from the Finance, Revenue and Expenditure Department which led to savings.

- Analysis of expenditure revealed that advance of ₹ 8.08 crore was released during the years 2010-11 to 2014-15. Out of this ₹ 2.43 crore remained unadjusted as of March 2015. Further analysis revealed that in 16 cases, the advances were adjusted between 2 and 29 months after the drawal of advance, in 12 cases (drawn between March 2009 and March 2014), materials/services had not been received by the Department as of March 2015.

These instances indicated that advances were released without immediate requirement or adjustments of advances were not insisted upon by the Drawing and Disbursing Officer and Controlling Officer as enshrined in Sikkim Financial Rules. This also led to loss of interest of ₹ 18.19 lakh¹⁴ on unadjusted advances.

The Department stated (October 2015) that necessary steps were being taken to settle the advances.

2.4.9 Programme Management

Audit Objective-3:

To assess whether programme management was efficient and effective.

Programme management plays an important role in achieving overall objectives of the Department. During 2010-15, HCCDD implemented four major schemes, which included Horticulture Mission for North East and Himalayan States (HMNEH), National Bamboo Mission (NBM), National Mission for Medicinal Plants (NMMP) and National Mission for Micro-Irrigation (NMMI). The impact of these schemes w.r.t. area under production, production and productivity for the period under audit for various crops are given below:

Table 2.4.2
Area, production and productivity of various crops

| Crop | Particulars | Year | | | | | Increase(+)/ Decrease (-) during 2014-15 over 2010-11 |
|---------------------------|--------------|---------|---------|---------|---------|---------|--|
| | | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | |
| Fruits | Area | 12.89 | 13.39 | 14.65 | 16.02 | 17.59 | (+) 4.70 (36) |
| | Production | 20.11 | 22.24 | 24.02 | 25.04 | 26.42 | (+) 6.31 (31) |
| | Productivity | 3,089* | 3,097* | 3,115* | 3,127* | 3,129* | (+) 40 (1) |
| Vegetables | Area | 14.40 | 14.58 | 14.80 | 15.15 | 15.17 | (+) 0.77(5) |
| | Production | 75.20 | 77.10 | 79.75 | 80.97 | 80.84 | (+) 5.64(8) |
| | Productivity | 5220 | 5285 | 5387 | 5342 | 5329 | (+) 109(2) |
| Roots and Tubers (R&T) | Area | 10.11 | 10.44 | 10.75 | 10.95 | 10.95 | (+) 0.84(8) |
| | Production | 49.16 | 50.55 | 52.75 | 53.55 | 53.56 | (+) 4.40(9) |
| | Productivity | 4,862 | 4,840 | 4,905 | 4,889 | 4889 | (+) 27 (1) |
| Spices | Area | 24.38 | 25.5 | 26.56 | 27.52 | 28.32 | (+) 3.94(16) |
| | Production | 52.37 | 56.68 | 60.09 | 60.91 | 61.53 | (+) 9.16(17) |
| | Productivity | 2,148 | 2,222 | 2,222 | 2,213 | 2,172 | (+) 24(1) |
| Flowers | Area | 0.089 | 0.098 | 0.104 | 0.111 | NA | (+) 0.022(25) |
| | Production | 114.08 | 126.65 | 129.55 | 134.54 | NA | (+) 20.46(18) |

Area - in '000 hectares; Production - in '000 tones except for Flowers (in lakh no.) and Productivity in Kg/ha.

Source: Annual Progress Report of the Department; NA= Figure Not Available.

* Department mentioned that since the orchard includes bearing and non-bearing fruit plants, the productivity is not derived by normal method as for other plants but by eye estimation.

¹⁴ Calculated @ 4 per cent per annum from the date of drawal of advances till March 2015.

It was noticed that area under production increased marginally but steadily from 12.89 to 17.59 hectares (36 per cent) for fruits¹⁵, from 14.40 to 15.17 hectares (5 per cent) for vegetables¹⁶, 10.11 to 10.95 hectares (8 per cent) for Root and Tubers¹⁷ (R&T) and 24.38 to 28.32 hectares (16 per cent) for spices¹⁸ during 2010-15. In case of flowers, area under production increased by 0.022 hectares (24 per cent) from 0.089 to 0.111 hectares during the same period.

Similarly, the production increased from 20.11 to 26.42 thousand tonnes (31 per cent) for fruits, 75.20 to 80.84 thousand tonnes (8 per cent) for vegetables, 49.16 to 53.56 thousand tonnes (9 per cent) for R&T and 52.37 to 61.53 thousand tonnes (38 per cent) for spices during 2010-15. In case of flowers, production increased by 20.46 lakh numbers (18 per cent) from 114.08 to 134.54 lakh numbers during the same period.

The productivity increased 109 kg/ha (2 per cent) from 5,220 to 5,329 kg/ha for vegetables, 27 kg/ha (1 per cent) 4,862 to 4,889 kg/ha hectare for R&T, 24 kg/ha (1 per cent) from 2,148 to 2,172 kg/ha for spices and 40 kg/ha (1 per cent) from 3,089 kg/ha to 3,129 kg/ha for fruits during 2010-15.

Comparison with other States

A comparison of productivity of major corps such as fruits, vegetables and spices was attempted by Audit. The data pertaining to other States was not available with the Department therefore, Indian Horticulture Database - 2014 published by National Horticulture Board (NHB) was adopted for comparison. Audit noticed that the productivity of Sikkim recorded by NHB did not match with the productivity figures reflected by the Department in their Annual Progress Reports in case of fruits and spices whereas the figures pertaining to vegetables tallied. The difference could not be explained by the Department. Based on the productivity figure reflected by National Horticulture Board for different States, comparison by Audit revealed following:

Fruits: The comparison revealed that productivity of fruits for Sikkim ranged between 1.5 MT/ha and 1.7 MT/ha whereas other States such as Himachal Pradesh (1.7 to 3.9 MT/ha), Arunachal Pradesh (3.6 MT/ha), Mizoram (5.9 to 6.3 MT/ha), Nagaland (7.4 to 10.3 MT/ha), Jammu and Kashmir (5 to 5.8 MT/ha), Uttarakhand (4 MT/ha) and Meghalaya (9.3 to 9.9 MT/ha) showed better averages ranging between 1.7 and 10 MT/ha. The all India average ranged between 11.4 and 12.3 MT/ha. The details are shown in the **Appendix 2.4.1**.

Vegetables: The comparison revealed that productivity of vegetables for Sikkim ranged between 5.2 MT/ha and 5.3 MT/ha whereas other States such as Himachal Pradesh (18.2 to 19.1 MT/ha), Arunachal Pradesh (13.2 to 25 MT/ha), Mizoram (5.9 to 6.2 MT/ha), Nagaland (6.7 to 12.8 MT/ha), Jammu and Kashmir (22.1 MT/ha), Uttarakhand (11.5 to 12 MT/ha) and Meghalaya (9.8 to 11.8 MT/ha) ranged between 5.9 and 25 MT/ha and all India average of 17.3 to 17.6 MT/ha. The details are shown in the **Appendix 2.4.2**.

¹⁵ Fruits: Orange, Litchi, Kiwi, Peer, Banana and Guava.

¹⁶ Vegetables: Cauliflower, Cabbage, Tomato, Radish, Pea and Bean.

¹⁷ Root and Tubers: Carrot and Radish.

¹⁸ Spices: Large Cardamom, Ginger, Turmeric and Cherry Pepper.

Spices: The comparison revealed that productivity of spices for Sikkim ranged between 1.7 MT/ha and 2.2 MT/ha whereas other States such as Himachal Pradesh (1.4 to 4 MT/ha), Arunachal Pradesh (6.1 to 6.3 MT/ha), Mizoram (2.7 to 5.6 MT/ha), Nagaland (4 MT/ha), Jammu and Kashmir (0.2 to 0.3 MT/ha), Uttarakhand (5.1 to 5.9 MT/ha) and Meghalaya (4.4 to 4.8 MT/ha) ranged between 0.2 and 6.3 MT/ha and all India average of 1.9 MT/ha. The details are shown in the **Appendix 2.4.3**.

This indicated that the Department needed to initiate suitable steps to enhance the productivity of fruits, vegetables and spices to catch up with similarly placed States and the all India average.

2.4.9.1 Horticulture Mission for North East and Himalayan States

This HMNEH is the back bone of horticulture development initiatives in the State. The programme was executed through Sikkim Farmers' Agri-business Consortium (SFAC) headed by an Executive Director. The programme focused on establishing convergence and synergy among numerous ongoing programmes in horticulture sector with a view to achieve horizontal and vertical integration for ensuring adequate, appropriate, timely and concurrent attention to all the links in production, post-harvest management and consumption chain to maximise economic, ecological and social benefits.

2.4.9.2 Target and achievement

The achievement of major components under HMNEH for the State for 2010-15 is given below:

Table 2.4.3
Achievement (physical) of Target under HMNEH

| Sl. No. | Component | Unit | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---------|--|--------|---------|----------|----------|----------|----------|
| 1 | Production of Planting Materials | Nos | 5 | 41 | 56 | 70 | 58 |
| 2 | Area Expansion of Fruits, Vegetables, Flowers and Spices | Ha | 5,520 | 6,700 | 4,939 | 6,028 | 5,765 |
| 3 | Rejuvenation/replacement of senile plantation | Ha | 400 | 700 | 620 | 750 | 732 |
| 4 | Creation of Water Sources | Nos | 4 | 108 | 135 | 150 | 169 |
| 5 | Protected Cultivation | Sq. m. | 94,000 | 2,99,155 | 2,19,260 | 3,31,800 | 6,21,923 |
| 6 | Promotion of INM/IPM | Ha | 1,800 | 10,500 | 5,000 | 5,000 | 10,800 |
| 7 | Organic Farming | Ha | 4,115 | 9,887 | 13,233 | 11,857 | 16,951 |
| 8 | Pollination support through Bee keeping | Nos | 3,001 | 1,433 | 1,003 | 4,520 | 0 |
| 9 | Horticulture Mechanism | Nos | 50 | 101 | 612 | 495 | 1 |
| 10 | Centre of Excellence | Nos | 1 | 0 | 1 | 1 | 0 |

Source: Annual Progress reports of the Department. The component of mushroom not included in the table as it was not substantial.

It was noticed that the targets were fully achieved under various components of the HMNEH during 2010-14. During 2014-15, while achievement (16,951 ha) under organic farming was higher than the target (7,809 ha); there were shortfalls in production of planting materials, area expansion in case of flowers and fruits, rejuvenation/replacement of senile plantation, protected cultivation and horticulture mechanisation. Details are given in **Appendix 2.4.4**. The pollination support through bee keeping was not taken up at all during 2014-15 against the target of 2,832 nos. due to non-availability of bee boxes.

Failure to execute pollination support activities was fraught with the risk of lower productivity of various crops in future.

The Department assured (October 2015) that efforts would be initiated in future for achievement of the target.

2.4.9.3 Irregularity in implementation of Centre of Excellence

The SFAC Sikkim took up execution of three Centres of Excellence (CoE) in Horticulture in South, West and East districts at a cost of ₹ 5 crore each (total ₹ 15 crore) fully funded by GOI with the primary goal of growing more from less area. The major component of the CoE included establishment of mother block of improved varieties of fruit, flower and vegetable in open field conditions, rootstock block of citrus and apple (under open conditions), high-tech green houses, naturally ventilated green houses, net houses, low tunnel poly houses, various types of irrigation facilities, support systems for fruits grown in vines/climbers, vermin compost/farm yard manure unit, tissue culture units, training centre, etc. Audit observed that the programme was implemented by the Department in individual farmers' fields like any other area expansion programme for fruits, vegetables, etc. through construction of green houses, distribution of seeds, seedlings, manure, etc. for taking up plantation by farmers. The guidelines envisaged that independent CoEs fully under the control of the Department ought to be established. This was obviously to provide access and demonstration to all farmers which would become restricted when such centres come up on private land.

Image 2.4.1



Green House constructed in farmers' field at South District

Image 2.4.2



Green House constructed in farmers' field at West District

Activities like cultivation of local vegetable/drum stick were taken up by farmers, which was easily available locally and did not contribute towards establishing or even introduce improved varieties. In other States like Haryana, Maharashtra and Odisha, the CoEs had been established in technical collaboration with Israel by Horticulture Directorates of respective States, for the purpose of improvement of varieties.

The major components of the CoEs envisaged in the programme vis-à-vis actual execution in the field is tabulated below to indicate departure from the approved programme:

Table 2.4.4

| Major component | Name of the districts, year of establishment (in brackets) and action taken | | |
|---|---|--|-------------------------------------|
| | South (2010-11) | West (2013-14) | East (2013-14) |
| Establishment of mother block of improved varieties in open field condition | Not done | Not done | Not done |
| Establishment of mother block of citrus in greenhouse | Not done | Not done | Not done |
| Hi-tech green house | Not done | Not done | Not done |
| Automation fertigation/irrigation unit | Not done | Not done | Not done |
| Vermin compost/FYM unit | Not done | Not done | Not done |
| Tissue culture unit | Not done | Not done | Not done |
| Training Centre | Training centre not constructed and instead renovated existing building. Funds lying without utilisation. | 80 per cent completed as of July 2015. | Site not finalised as of July 2015. |
| Grading, pack house and cold room | Not done. | Not done | Not done |
| Technical support/manpower | Done | Done | Done |

Source: Information collated from Departmental records.

A comparison of Sikkim with the other States such as Haryana and Odisha revealed that the major components of CoEs were implemented by other States but had not been done in Sikkim as shown below:

Table- 2.4.5

| Major component | Name of the State and action taken | | |
|---|--|--|--|
| | Haryana | Odisha | Sikkim |
| Establishment of mother block of improved varieties in open field condition | Mother block of improved variety of tomatoes, capsicum, cucumber and brinjal was established. | Mother block of improved variety of tomatoes, capsicum and cucumber was established. | Mother blocks not established. |
| Establishment of mother block in greenhouse | Mother block of vegetable was established. | Mother block of vegetable was established. | Mother blocks not established. |
| Hi-tech green house | Hi-tech green house with fitted with cooling, misting heating system alongwith humidity and temperature control system and raised platform were constructed. | Hi-tech green house with fitted with cooling, misting heating system alongwith humidity and temperature control system and raised platform were constructed. | Tubular structure green houses were constructed in the farmers' field instead of high tech green houses. |
| Automation fertigation/irrigation unit | Established. | Overhead sprinkling and fogging system installed for Fertigation. | Not established. |
| Tissue culture unit | Established. | Established. | Not established. |
| Training Centre | Training Centre established and training to the farmers were provided. | | 2 (out of 3) centres were taken up but not completed as of March 2015. |
| Grading, pack house and cold room | | | Not done. |
| Technical support/manpower | Done. | Done. | Done. |

Audit verification further revealed that the (i) detailed project report, guidelines were not available in the concerned districts as well as in the Head Office, (ii) evaluation study was not carried out to assess the impact on productivity, (iii) permanent register indicating

layout of promising variety was not maintained, (iv) agreement with the beneficiary farmers were not entered into for enabling free access and use of facilities by Government and other farmers for demonstration and other purposes in future and (v) irrigation system was not installed in the three test checked Green Houses in West District.

Thus, the CoE, which was intended to grow more from less area by establishment of mother block of improved variety and other associated facilities was not achieved despite incurring ₹ 13.93 crore by the Department.

The Department stated (August 2015) that the CoEs were established in the farmer's field as (i) existing State Government farms were located at different places where sufficient area for implementation of various components was not feasible; (ii) establishment of different economic crops in accordance with the varied agro-climatic condition was not possible to be taken up in the existing Government farms; (iii) the programme was funded by GoI as one time grant, post maintenance of the project would not be possible; (iv) mother blocks of different kinds of fruits, flowers, vegetables could be accomplished by using different agro-climatic condition in the farmers' field; and (v) that the programme had become focal unit to disseminate the success stories and replication to surrounding cluster areas as it was implemented in the farmer's field.

However, not only the establishment of CoE in farmers field was against the spirit of the guideline, programme objective of establishment of mother blocks of different kinds of fruits, flowers, vegetables, etc. for improving the productivity had not been accomplished as of November 2015. Further, approval from GOI to implement the CoEs in farmer's field instead of Government farm was not obtained.

2.4.9.4 Idling of floriculture infrastructure

The Department took up construction of Integrated Floriculture Pack House (IFPH) for fresh cut flowers, flower bulbs and allied products at Rangpo and Melli at a total project cost of ₹ 299.30 lakh under the financial assistance (₹ 280 lakh) of Agriculture and Processed Food Export Development Authority (APEDA). The project was taken up with the objective of collecting, sorting, grading, packing, preservation and export of cut flowers to earn maximum foreign exchange. The project was split in two phases: Phase-I envisaged establishment of Rangpo Pack House at ₹ 151.90 lakh and Phase-II envisaged establishment of Melli Pack House and two cold storages at ₹ 147.40 lakh.

Audit noticed that the Department undertook Phase-I of the project entailing construction of Integrated Floriculture Pack House (IFPH) at Rangpo in 2007-08. The project consisted of a cold storage unit, sorting/grading rooms, office block, two reefer vans, crate buckets, weighing scale, packing materials, etc. The construction of project commenced in August 2007 through contractor and was completed in May 2008 at a cost of ₹ 151.90 lakh. The project was handed over only in April 2011 to SIMFED for operation. However, the project was returned back (May 2012) by SIMFED as they could not use the facility for reasons not on record. Thereafter, the project remained idle as seen in the photograph below:

Image 2.4.3



Image 2.4.4



Image 2.4.5



Closed down Integrated pack house, Rangpo

The Department while agreeing that the facility could not be used by SIMFED stated (October 2015) that the same was likely to be handed over to Sikkim Rural Development Agency (SRDA). The Department further added that monitoring Committee would be formed consisting of members from SRDA, SIMFED and Department to ensure its proper usage.

Thus, the project completed at a cost of ₹ 151.90 lakh was rendered unfruitful as of October 2015 and the project objective of collecting, sorting, grading, packing, preservation and export of cut flowers to earn maximum foreign exchange were not achieved. Phase-II of the IFPH project proposed to be established at Melli at a cost of ₹ 147.40 lakh was substantially revised (June 2010) to ₹ 384.03 lakh. The civil construction part of the project was completed to the extent of 90 *per cent* by incurring ₹ 2.17 crore as of August 2015. However, installation of machinery and equipment was awaited due to want of funds. The Department had invited (October 2015) expression of interest for leasing out the facility at Melli. However, as of October 2015, value for money was not obtained from the facility and it remained idle despite incurring an expenditure of ₹ 2.17 crore.

2.4.9.5 Inordinate delay in establishment of Modern Flower Electronic Auction Centre and Pack House

The Department decided (August 2012) to set up a Modern Flower Electronic Auction Centre and Pack House in the upcoming Airport at Pakyong with the objective of export of floriculture products. The HCCDD accordingly selected (October 2013) M/s Global Agri System Pvt. Ltd, a New Delhi based firm through Notice Inviting Tender (November 2012), for preparation of feasibility report and Detailed Project Report (DPR) of Modern Flower Electronic Auction Centre for ₹ 27.52 lakh. The agency submitted (July 2014) the feasibility report and DPR to the Department and ₹ 4.71 lakh (out of ₹ 27.52 lakh) was paid (July 2015) to the agency. Audit verification revealed that even after lapse of more than one year of submission of DPR, the approval of DPR was not accorded by HCCDD owing to fund constraints. Thus, the Department had incurred ₹ 27.52 lakh (₹ 4.71 lakh paid and ₹ 22.81 lakh committed liability) without ensuring its utility. The project remained incomplete as of August 2015. Failure to complete the project was fraught with the risk of non-achievement of intended objective of boosting export of floriculture products.

2.4.9.6 Creation of Sorting and Grading line

National Horticulture Board (NHB), GOI sanctioned (March 2012) ₹ 2.99 crore towards Sorting and Grading line for Sikkim Mandarin (Orange) alongwith pack house, low cost preservation unit and pusa zero energy cool chamber to facilitate easy marketing of products within and outside the State. The NHB simultaneously released ₹ 1.50 crore as 50 *per cent* share and advised the State Government to invest State share and Central assistance in equal proportion. The HCCDD released (March 2013) ₹ 1 crore to SIMFED for establishment of project in all four districts of the State within July 2014, failing which amount along with interest earned therefrom would be refunded by SIMFED. The project after completion would be handed over to SIMFED for operation.

It was noticed that out of four Sorting and Grading line units, only two were taken up by SIMFED in North (Gnon Samdong Farm, Dzongu) and West (Kamling Farm) districts as of March 2015. The other two units in East and South districts were not taken up at all, primarily due to failure of the State to release its matching share. The HCCDD had neither requisitioned from the State Government for release of matching share of ₹ 1.50 crore nor the State Government released the same. The said two projects in North and West districts had been completed belatedly, recording a delay of six months at a cost of ₹ 1 crore, owing to delayed finalisation of site. The completed projects in North and West districts had also not been operationalised by SIMFED as of August 2015, despite a trial run conducted (January 2015) in case of West district as the orange season was over.

Thus, against the four sanctioned Sorting and Grading line units of ₹ 2.99 crore, the Department constructed only two units, that too had not been operationalised as of August 2015 despite incurring ₹ 1 crore. As a result, project objective of easy marketing of Sikkim Mandarin (orange) products was not achieved.

The Department stated (October 2015) that remaining two projects could not be taken up in absence of matching grant from State Government. In a subsequent reply, the Department stated (November 2015) that local Panchayats and Co-operative societies had expressed their interest to run the infrastructure. Hence, the Department was contemplating to hand over the facilities to them on mutually agreed terms. However, as of November 2015, the projects were neither handed over to Co-operative Societies nor put to operation.

2.4.9.7 Integrated Nutrient Management (INM) and Integrated Pest Management (IPM)

With a view to discourage indiscriminate use of nutrients and pesticides by farmers, component of promotion of INM and IPM was implemented through technology dissemination. Assistance was also given for developing long term plant protection facilities like disease forecasting units, bio-control laboratories, plant health clinics and Leaf/Tissue Analysis laboratories. The Mission spent ₹ 3.06 crore during 2010-15 to implement INM/IPM in farmers' field and Government Farms.

Audit observed that the fund was utilised for short term activities such as trial-cum-demonstration for large cardamom (₹ 2 lakh), procurement of inputs for establishment of

large cardamom nurseries (₹ 12.96 lakh), purchase of insect traps, agro-shed nets and chemicals (₹ 35 lakh) during 2012-13. The expenditure did not conform to the purpose of establishment of infrastructure for disease forecasting units, plant health clinics/tissue analysis units, etc. for which funds had been sought under the INM/IPM components. This not only constituted deviation but also deprived farmers of common facilities for INM/IPM.

The Department stated (August 2015) that fund availability under the component was not sufficient enough to accommodate the high cost of establishment of plant health clinic and disease forecasting units as per the standards of the guidelines. The Department further added that the establishment of above infrastructure would be implemented once the funds are available. The action of the Department to utilise the funds against the stipulation of the guidelines was irregular and did not help in developing long term plant protection facilities.

2.4.9.8 Protected cultivation

HMNEH guidelines (Para-10.2.11) envisaged promotion of activities like construction of shade net house, green houses, mulching and plastic tunnels, anti-bird/hail nets to increase the productivity. State Horticulture Mission constructed a number of structures in the farmers field at an aggregated cost of ₹ 65.64 crore during 2010-15. Audit observed during beneficiary survey that the structures were put to use by the farmers and the farmers regarded the structure very useful in improving the productivity thereby supplementing their income. The State Horticulture Mission, however, had neither collected the production particulars from the beneficiaries to establish that there was proper utilisation of subsidy and increase in production and productivity after implementation nor realised 50 *per cent* beneficiary contribution of ₹ 32.82 crore as envisaged in the guidelines.

The Department stated (August 2015) that farmers contribution was not taken in financial terms but they had contributed towards land leveling including stone walls, arrangement of required organic manure, water for irrigation, labour for cultivation, etc. The guidelines however, mandated for 50 *per cent* cost recovery from farmers which was not effected by the Department. Regarding the production particulars from the beneficiaries, the Department stated (August 2015) that records were regularly sought from district officials and farmers were being trained to maintain proper production records to facilitate monitoring. However, details of records sought from districts were not available for verification by Audit.

2.4.9.9 Creation of Water Sources

The HMNEH provided assistance for creating water sources through construction of community tanks, farm ponds/reservoirs with plastic/RCC lining to ensure life saving irrigation to horticulture crops. The assistance was to be dovetailed in conjunction with Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and wherever possible adequate convergence was to be ensured.

During 2013-14, the Department incurred ₹ 3.16 crore towards creating water sources in the form of Genap community tank (₹ 1.60 crore), dug out ponds for individual/farmers (₹ 0.80 crore) and ₹ 0.76 crore towards procurement of pipes.

Audit noticed that as per approved Annual Action Plan for 2013-14, 10 community tanks (size 100mx100mx3m) aggregating to total storage facility of 30 crore litres, with use of plastic/RCC was to be created at a cost of ₹ 1.73 crore for non-MGNREGS beneficiaries. It was noticed in Audit that while implementing the programme, the Department had deviated from the approved plan and procured 27 readymade tanks (Genap tanks) of 50,000 litres each (involving a total cost of ₹ 1.60 crore) along with pipes and fittings to be installed at different locations all over the State. The total capacity of the 27 tanks @ 50,000 litres per tank worked out to 13.50 lakh litres only against the targeted storage capacity of 30 crore litres to be created under the programme. Thus, there was a shortfall of creation of community water storage facility of 29.86 crore litres (99 per cent).

The Department stated (October 2015) that Genap tanks were installed considering its water use efficiency which was much higher due to less evaporation loss and less maintenance cost.

The reply was not acceptable as installation of Genap tanks led to considerable shortage (99 per cent) in storage capacity of water. Further, approval of the funding agency in GOI for this major diversion from the scheme specifications was not sought.

Similarly, the Department obtained the approval of GOI for construction of water harvesting system for individual farmers at a total cost of ₹ 1.44 crore for 140 ponds of 20mx20mx3m size all over the State. In terms of the approved action plan, the Department was required to create total water storage capacity of 16.80 crore litres (20x20x3x140x1,000 litres) at a cost of ₹ 1.44 crore in 140 ponds. Against the above approved plan, the Department created 93 lakh litres storage capacity in three districts of the State (East-30 lakh litres; South 40 lakh litres and West-23 lakh litres) by incurring ₹ 1.56 crore towards dug ponds of various sizes ranging between 20,000 litres and 50,000 litres and procurement of pipes. Thus, there was shortfall of water harvesting capacity of 15.87 crore litres (99 per cent) under the component of providing water harvesting facility to individuals.

The Department stated (October 2015) that dug out ponds could not be executed in Sikkim due to difficult terrain entailing high transportation and labour cost. The reply was not acceptable as approval from GOI was not sought for deviation from the approved plans. Further, deviation led to considerable reduction (99 per cent) of storage capacity of water, which was bound to impact on production and productivity of various crops in coming years.

2.4.9.10 Award of work to NGO without tender

The NEC, Ministry of Development of North Eastern Region, GOI sanctioned (December 2012) a project 'Cultivation of Commercial Floriculture Crops, Rumtek, East Sikkim' at a cost of ₹ 3.83 crore on cost sharing of 90:10 between GOI and State Government and simultaneously released (December 2012) ₹ 1.20 crore towards first installment. The

project comprised of infrastructures like green houses, stores, irrigation systems, planting materials in 2.75 acres of land, with a view to promote production of anthurium, liliium and orchids under green house. The terms and condition of the NEC sanction categorically stipulated that the project should be implemented by the HCCDD and completed (November 2015) within three years from date of sanction.

Audit noticed that the work was awarded (December 2012) to an NGO, Sikkim Social Youth Welfare Association (SSYWA) through SIMFED based on their request, without inviting tenders and specific approval of the funding agency (NEC). The Department also did not verify the bona-fides and credentials of the NGO, authenticity of the beneficiary farmers included in the project and cost and quantities included in the project. The terms of

Image 2.4.6



Incomplete work

entrustment to the NGO were also not spelt out by the Department. Physical verification of the project by Audit along with departmental officers revealed (September 2015) that the progress of work was slow, construction of green houses were not completed, irrigation systems had not been installed and plantation had not commenced. Therefore, the progress of the project was very poor as compared to its stipulated date (November 2015).

Thus, award of work to the SSYWA without inviting tenders and without ascertaining the authenticity of the beneficiary farmers included in the Project Report vitiated fair competition and was against the financial propriety. This led to extension of undue favour to the NGO. Besides, delay in implementation of project also indicated that robust monitoring was lacking to reap the benefits of promoting production of anthodium, liliium and orchids envisaged in the project in time bound manner.

2.4.10 National Bamboo Mission

The National Bamboo Mission (NBM) was launched (2006-07) by the Department of Agriculture and Co-operation (DAC), GOI with the objective to uplift the socio-economic condition of the poor villagers by introducing large scale bamboo production in rural areas so that poor villagers would get direct benefits of using the bamboo and its products.

The HCCDD was designated as the Nodal Department to implement this programme in the State. Against the total funds of ₹ 14.88 crore under NBM during period under audit, funds were allocated among three departments for various activities as detailed below:

Table 2.4.5

(₹ in crore)

| Name of Department | Fund | Activities |
|--------------------|------|--|
| HCCDD | 8.57 | Plantation in non-forest areas, maintenance of plantation, training of farmers and overall monitoring of implementation of NBM in the State. |

| Name of Department | Fund | Activities |
|--|------|--|
| Forest, Environment and Wildlife Management Department (FEWMD) | 5.59 | Plantation in forest area, maintenance of plantation, treatment of harvested crop to enhance durability, introduction of new designs and mechanisation of bamboo based crafts, introduction of grading systems of round and primary processed bamboo, introduction of preservative methods, construction of warehouses for storage of harvested bamboo crops, setting up of bamboo wholesale and retail markets near villages, marketing through bamboo festivals, <i>Melas</i> , expos, craft bazaars, bamboo markets and introduction of effective electronic information flow system for promotion, popularisation and sale of bamboo and bamboo based products to benefit all stake holders involved in the bamboo sector. |
| DHH | 0.72 | Enhancing employment opportunities, preservation and introduction of new designs and mechanisation of bamboo-based crafts, conversion of niche bamboo handicraft products to mass products, introduction of utility handicrafts through industrialised means, setting up of bamboo wholesale and retail markets near villages, marketing through Bamboo Festivals, <i>Melas</i> , Craft Bazaars, bamboo markets and introduction of effective Electronic Information Flow systems. |

Audit verification revealed the following:

➤ ***Forest, Environment and Wildlife Management Department (FEWMD)***

The FEWMD incurred funds (₹ 5.63 crore)¹⁹ primarily towards plantation (₹ 2.85 crore), maintenance of plantation in forest area (₹ 2.67 crore) besides other minor activities (₹ 0.11 crore) associated with bamboo plantation. The FEWMD had thus, not utilised the funds towards other important activities as laid out in NBM guidelines such as construction of suitable warehouses near the forest areas for storage of bamboo crops, treatment of harvested crops to enhance durability, introduction of new designs, introduction of effective electronic information flow system for promotion, popularisation and sale of bamboo and bamboo based products to benefit all stake holders involved in the bamboo sector.

In reply, the FEWMD while agreeing that the funds were mainly incurred towards bamboo plantation and its maintenance in forest areas stated (October 2015) that one each of bamboo whole sale market and retail outlet had been approved during 2014-15 which would be completed during the current year (2015-16). Introduction of new designs, introduction of effective electronic information flow system for promotion, popularising and sale of bamboo and bamboo based products to benefit stake holders were being done through pamphlets/brochures on bamboo crafts, participation in trade fairs, seminars in the district, exposure visit to different institutes like Cane and Bamboo Technology Centre, Guwahati, Forest Research Institute (FRI) Dehradun, etc.

However, as of November 2015, important activities such as construction of suitable warehouses near the forest areas for storage of bamboo crops, treatment of harvested crops to enhance durability, introduction of new designs, introduction of effective electronic information flow system for promotion, sale of bamboo and bamboo based products to benefit stake holders had neither been achieved nor assessment carried out to assess the production and productivity.

¹⁹ Additional ₹4.17 lakh was incurred from interest earned.

➤ **Directorate of Handloom and Handicraft (DHH)**

The DHH utilised the transferred funds of ₹ 72.10 lakh during 2010-15 towards construction of retail outlets at Gangtok (₹ 10.66 lakh), Namchi (₹ 13.33 lakh), New Delhi (₹ 13.33 lakh), Soreng (₹ 10 lakh) and Innovative Intervention and Skill Development Training (₹ 11.95 lakh). Thus, the DHH had not carried out the important activities such as enhancing employment opportunities, preservation and introduction of new designs and mechanisation of bamboo-based crafts, conversion of niche bamboo handicraft products to mass products, introduction of utility handicrafts through industrialised means, setting up of bamboo wholesale and retail markets near villages and marketing through Bamboo Festivals, *Melas*, Craft Bazaars, bamboo markets and introduction of effective Electronic Information Flow systems as listed in the NBM guidelines. Annual Action Plans within the parameters of the Mission detailing the activities as required under NBM guidelines was also not formulated by DHH.

The DHH stated (October 2015) that skill upgradation training like Innovative Design and Development Training Workshop, Integrated Design for Artisans, etc. in different parts of districts were being organised for enhancing employment opportunity. For creating platform for marketing, DHH was directly procuring bamboo products made by bamboo artisans and sending bamboo artisans for exhibition and fairs outside Sikkim.

However, as of November 2015, preservation and introduction of new designs and mechanisation of bamboo-based crafts, conversion of niche bamboo handicraft products to mass products, setting up of bamboo wholesale and retail markets near villages and introduction of effective Electronic Information Flow systems as listed in the NBM guideline had not been taken up.

Thus, the FEWMD and DHH had not undertaken the important activities as listed above despite incurring substantial funds of ₹ 6.35 crore. The HCCDD also, on its part, had not monitored the works carried out by FEWMD and DHH to ensure achieving the intended objectives under the NBM. Even the assistance was provided to FEWMD on year to year basis without assessing the survival of 90 *per cent* of the plants as envisaged in the NBM guidelines. Further, monitoring and evaluation of the impact of the scheme to increase employment opportunities, preservation and introduction of new designs and mechanisation of bamboo-based crafts to assist in marketing the products were also not attempted either by HCCDD or the other implementing agencies.

2.4.10.1 Absence of processing and marketing of bamboo produce

The Department reported achievement of 7,939 hectares of bamboo plantation during the period 2006-07 to 2014-15 as shown below:

Table 2.4.6

| Year | Target (ha.) | Achievement (ha.) | Beneficiaries covered |
|--------------|--------------|-------------------|-----------------------|
| Upto 2009-10 | 5,067 | 5,030 | 6,942 |
| 2010-11 | 860 | 837 | 1,086 |
| 2011-12 | 1,200 | 1,197 | 677 |
| 2012-13 | 80 | 80 | 124 |
| 2013-14 | 300 | 300 | NA |
| 2014-15 | 500 | 495 | 460 |
| TOTAL | 8,007 | 7,939 | 9,289 |

Source: Figure furnished by the Department. NA= Data not made available.

Out of 7,939 hectares, 5,030 hectares of bamboo plantation done in 2006-10 by the HCCD Department had already completed five years and thus became mature for extraction. In terms of the expected annual economic return from bamboo plantation, the net commercial value of the product upto 2009-10 would be ₹ 172.22 crore as detailed below:

Table 2.4.7

(₹ in crore)

| Yield during | Area (ha.) | Value of yield | Total value |
|--------------|----------------------------------|---------------------------------|---------------|
| 2011-12 | 700 ²⁰ | 700 x ₹ 1.52 lakh ²¹ | 10.64 |
| 2012-13 | 2,300 (700+1,600 ²²) | 2,300 x ₹ 1.52 lakh | 34.96 |
| 2013-14 | 3,300(700+1,600+1,000) | 3,300 x ₹ 1.52 lakh | 50.16 |
| 2014-15 | 5,030(700+1,600+1,000+1,730) | 5,030 x ₹ 1.52 lakh | 76.46 |
| TOTAL | | | 172.22 |

Further, the HCCDD had incurred expenditure of ₹ 26.29 crore under NBM towards plantation and maintenance of bamboo crop during 2006-15. However, records provided to audit did not show any planning and action undertaken by the Department towards post-harvest collection, preservation-cum-storage, processing and marketing of bamboo crop and bamboo based products. Thus, raw bamboo crop valuing ₹ 172.22 crore which became mature for harvesting during 2011-15 failed to yield any benefit to the farmers.

The Department stated (August 2015) that the bamboo plantation was mostly done in the sloppy, unfertile, degraded land which were unsuitable for agricultural purposes. Land profile of Sikkim coupled with non-application of chemical fertilisers, low population and absence of buyers from other states constrained easy and large scale harvesting, processing and marketing of bamboo and bamboo based products. The Department further added that export of bamboo based products was economically not feasible due to high labour cost, difficulties in harvesting and processing and high transportation cost. The reply was not acceptable as these constraints and non-feasibility of export of bamboo based products should have been analysed before taking up the programme.

In a subsequent reply, the HCCDD while accepting that data on production and quantity of bamboo Culm used and bamboo shoot consumed locally was not available with the Department stated (October 2015) that baseline survey to assess the production and productivity of bamboo under forest and non-forest areas had been initiated. Bamboo Treatment Plant, Post-harvest management structure with preliminary processing of bamboo and wholesale outlet for marketing of bamboo had been established at Rangpo in the current year (2015-16) to promote marketing of treated bamboo.

The Department, however, had not initiated suitable steps to harness the value of products as of November 2015. This defeated the objective of the NBM to provide stable and regular income to the farmers besides failing to provide employment and livelihood security to artisans, skilled labourers and others associated with the bamboo sector.

²⁰ 700 ha planted during 2006-07 matured in 2011-12.

²¹ Calculated on the basis of ₹ 1.52 lakh per ha reckoned by Arunachal Pradesh.

²² 1,600 ha planted during 2007-08 matured in 2012-13.

2.4.11 National Mission on Micro Irrigation

Water is one of the most critical inputs for agriculture. The availability of adequate water for irrigation is a key factor in achieving higher productivity. National Mission on Micro Irrigation, a Centrally Sponsored Scheme on Micro Irrigation was introduced in January 2006. The Scheme objective was to increase the area under improved methods of irrigation for better water use efficiency to provide stimulus to agricultural growth in a mission mode. The scheme aimed to help converge micro irrigation activities under major government programmes²³ to create integrated water harvesting structures for increasing water use efficiency, crop productivity and farmers' income. The salient features of the scheme vis-à-vis the position of the State is given below:

2.4.11.1 State Micro Irrigation Committee

The Operational Guidelines (November 2010) of National Mission on Micro-Irrigation (NMMI) envisaged (Para-4.3 and 4.4) constitution of a State Micro Irrigation Committee (SMIC) under the chairmanship of the Secretary, Horticulture/Agriculture with members /representatives from concerned departments like Water Resources, Rural Development, Ministry of Agriculture, State Panchayati Raj Institution, etc. to oversee the implementation of the Mission programme.

The function of SMIC *inter-alia* included (i) organising of base line survey and feasibility studies in different parts of the State, (ii) finalise the consolidated action plans of the districts, (iii) register the System Manufacturers and circulate the list thereof along with quote price to DMIC and implementing agencies and (iv) organise various training and extension programmes for farmers.

Audit noticed that although the SMIC was constituted (July 2010), it had not met on quarterly basis as required under the guidelines. Baseline survey and feasibility studies in different parts of the State covering various crops and technologies were not initiated as of March 2015. No action had been taken by the SMIC to register the system manufacturers of Irrigation equipment and circulate list of such manufacturers along with the quoted price to the District Micro Irrigation Committees (DMIC) and Implementing Agencies to facilitate installation and commissioning of the systems to the satisfaction of the farmers in order to ensure good quality components having BIS mark.

The Department had also never approached the SMIC to indicate quantum of money to be paid by the beneficiaries/banks to the manufacturers before installing the systems as envisaged in the Guidelines. Instead, the Micro Irrigation systems were procured directly from SIMFED, an apex Cooperative Society engaged in marketing of agricultural produce and procurement of agricultural inputs, without ensuring quality certification by Bureau of Indian Standards (BIS).

The Department stated (August 2015) that (i) all supplies in the State were procured from registered companies through SIMFED, (ii) the SMIC would meet quarterly in future, and (iii) action had already been taken by the SMIC to register the Irrigation system

²³ HMNEH, Rashtriya Krishi Vigyan Yojana (RKVY), National Food Security Mission (NFSM).

manufactures and circulate the list of such manufacturer along with quoted price to DMIC.

However, the guidelines had stipulated that the registered system manufacturing company must provide free after sale service to the farmers for at least three years and they should set up service centres for providing technological and agronomic support at the grassroot level, which had not been done till date.

Similarly, though DMIC was constituted in all districts between 2010-11 and 2013-14 as required under the Operational Guidelines (November 2010) of NMMI (Para-4.5) for implementing the NMMI programme in the district, the meeting of the Committee was not held on monthly basis.

2.4.11.2 Perspective/strategic plan

Perspective/strategic plan and road map for micro irrigation technology was not formulated as required in the Operational Guidelines of NMMI (Para-12.2). Synergy and convergence with the other departments like RMDD, FSADD was also not carried out except in 2014-15 with RMDD for water harvesting tanks.

The Department stated (October 2015) that perspective plan would be prepared in consonance with mission goals and objectives.

2.4.11.3 Target and achievement

The physical target and achievement of NMMI during 2010-15 is given below:

Table 2.4.8

| Year | Target (ha.) | Achievement (ha.) | Beneficiaries covered |
|--------------|-----------------|-------------------|-----------------------|
| 2010-11 | 00 | 00 | 00 |
| 2011-12 | 364.33 | 364.33 | 1,686 |
| 2012-13 | 201.59 | 172.67 | 1,014 |
| 2013-14 | 992.07 | 992.07 | 3,516 |
| 2014-15 | 841.70 | 841.70 | 2,268 |
| TOTAL | 2,399.69 | 2,370.77 | 8,484 |

Source: Figure furnished by the Department.

The Department achieved the target except in 2012-13. During 2012-13, achievement was 172.67 ha against the target of 201.59 ha leading to shortfall 29 ha (14 per cent) despite incurring entire sanctioned funds of ₹ 2.40 crore. The reasons for this shortfall could not be furnished by the Department.

2.4.11.3 Lapse of central fund

NMMI was launched in June 2010. The Department was required to prepare AAP for the year 2010-11. The proposal for ₹ 2 crore was mooted but was not finalised by the Department. Due to non-finalising the AAP, the central fund of ₹ 1 crore (50 per cent of ₹ 2 crore) was not sanctioned by GOI resulting in loss of central assistance.

The Department accepted (October 2015) the audit observation.

2.4.11.4 Disbursement of micro irrigation system to the beneficiaries

In terms of the Operational Guidelines (Para-4.7), the Implementing Agency (IA) was required to disburse financial assistance to the beneficiaries at the rate commensurate with

the size of the holdings as per revenue records in accordance with the guidelines of the scheme and furnish Utilisation Certificates and Monthly Progress Reports in the prescribed proforma to the Ministry of Agriculture.

Audit noticed that financial assistance was not disbursed to the beneficiaries directly as envisaged in the scheme guidelines. Instead, the micro-irrigation systems procured from SIMFED were provided to the farmers, without considering the size of holdings. Thus, there was deviation from the guidelines.

The Department stated (August 2015) that the system was procured from SIMFED and provided to the beneficiaries as per the policy of the State Government to procure all agricultural inputs from SIMFED. The action however, was in deviation of the Scheme Guidelines.

2.4.11.5 Excess expenditure on demonstration units

Assistance for demonstration of micro irrigation (MI) technology was provided by the Central Government @ 75 per cent of the system cost for a maximum area of 0.5 ha per beneficiary. MI demonstration was to be taken up on farmers' field and also on farms belonging to State/Central Governments, State Agricultural Universities (SAUs), ICAR Institutes, Non-Governmental Organisations (NGOs)/Trusts.

Audit noticed that the Department executed drip irrigation demonstration without realising 25 per cent cost contribution from the beneficiaries. During 2011-14, the State implemented drip irrigation in 443.84 hectares (1,196 units) on demonstration mode at a cost of ₹ 2.85 crore entirely from the Central funds. Non-realisation of beneficiary contribution was not only against the guidelines but also resulted in unauthorised excess expenditure of ₹ 0.95 crore from the NMMI funds on installation of drip irrigation system on demonstration mode.

The Department stated (August 2015) that the beneficiaries contributed their share in kind through supply of pipes, fittings, storage tank and transportation of water from source to the farm. The action however, was in deviation of the Scheme Guidelines and the quantum of contribution was neither quantified nor documented.

Thus, creation of infrastructure for the irrigation facilities was not done in full to provide required facility to the farmers as pointed out in *Para-2.4.9.9* and the implementation under NMMI was also not in conformity with the scheme guidelines as mentioned above. Besides, additional areas could have been covered with ₹ 0.95 crore incurred towards meeting beneficiaries contribution. Failure to enrol stakeholders through contribution could prove to be a deterrent to full beneficiary participation in this scheme.

2.4.12 National Mission on Medicinal Plants

The National Mission on Medicinal Plants (NMMP), a Centrally Sponsored Scheme, funded by National Medicinal Plant Board, GOI was launched in the State during 2009-10 with the objectives to (a) support cultivation of medicinal plants; (b) promote standardisation and quality assurance by adopting good agricultural and collection practices; (c) support setting up of processing zones/clusters through convergence of

cultivation, warehousing, value addition and marketing; (d) develop infrastructure for implementation and certification mechanism for ensuring quality standards. The HCCDD was the implementing agency in the State. Under the scheme, production of medicinal planting materials through setting up of nursery in public as well as private sector, cultivation of medicinal plant, etc. were taken up. Position of the NMMP in the State is given below:

2.4.12.1 Base line survey and feasibility studies

Operational Guidelines of NMMP [para 7.11 (iv)] envisaged conducting of base line survey and feasibility studies in different parts of districts and sub-districts to determine the status of medicinal plants, its potential and demand and tailor assistance accordingly. The Department claimed to have conducted the base line survey and feasibility studies but the reports were not documented and produced to Audit. Thus, the Department did not possess the exact information on various aspects of medicinal plants relevant to its geographical condition for effective implementation of the scheme to realise its full potential.

The Department stated (October 2015) that base line survey and feasibility studies were carried out during 2009-10 and informed that the same would be taken up again during the current year (2015-16).

2.4.12.2 Technical Support Group

According to para 7.11 of the Operational Guidelines of NMMP, the State Mission will have a technical screening committee consisting of domain expert to appraise the proposals. Audit noticed that the TSG was not constituted as of March 2015 and thus the Department was devoid of the benefits envisaged through TSG in the State.

The Department stated (October 2015) that the TSG would be constituted during the current year (2015-16).

2.4.12.3 Target and achievement

The physical target and achievement of NMMP during 2010-15 as indicated below revealed that the target was met in full by the Department except during 2013-14:

Table 2.4.9

| Year | Target (ha.) | Achievement (ha.) |
|--------------|-----------------|-------------------|
| 2010-11 | 00 | 00 |
| 2011-12 | 287.74 | 287.74 |
| 2012-13 | 595 | 595 |
| 2013-14 | 349 | 179.48 |
| 2014-15 | 446 | 446 |
| TOTAL | 1,677.74 | 1,508.22 |

Source: Figure furnished by the Department.

2.4.12.4 Establishment of new nurseries

To meet the requirement of quality planting material, financial assistance was to be provided for establishment of new nurseries (public as well as private sector) under the scheme. The details of establishment of new nurseries were as under:

Table 2.4.10

(₹ in lakh)

| Year | Public | | | | Private | | | | Amount involved |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|
| | Model | | Small | | Model | | Small | | |
| | T | A | T | A | T | A | T | A | |
| 2009-10 | 5 | 5 | 6 | 6 | 10 | 10 | 12 | 12 | 140.28 |
| 2010-11 | 6 | 6 | 6 | 6 | 1 | 1 | 2 | 2 | 178.00 |
| 2011-12 | 2 | 2 | 2 | 2 | 0 | 0 | 0 | 0 | 80.00 |
| 2012-13 | 2 | 2 | 6 | 6 | 0 | 0 | 10 | 10 | 48.00 |
| 2013-14 | 2 | 2 | 2 | 2 | 0 | 0 | 0 | 0 | 48.00 |
| 2014-15 | 0 | 0 | 4 | 4 | 0 | 0 | 0 | 0 | 16.00 |
| TOTAL | 17 | 17 | 26 | 26 | 11 | 11 | 24 | 24 | 510.28 |

Source: Figure furnished by the Department. T: Target, A: Achievement

Audit noticed that although the Department maintained details of public and private nurseries for raising medicinal plants in the district, details of seedling grown and supplied by each of the nurseries was not maintained by the Department. Therefore, extent of availability of quality planting material through nurseries could not be assessed in Audit.

The Department stated (October 2015) that district officials had been instructed to furnish the detailed data of medicinal plants, seedling production from public and private nurseries. However, as of November 2015, details had not been received.

2.4.12.5 Marketing facilities not created

There was no achievement under Post-Harvest Management component despite having a provision of ₹ 80 lakh for establishment of Drying Sheds and Storage Godowns during 2009-10. Similarly, during 2010-11, there was no achievement under creation of marketing infrastructure (₹ 20 lakh); testing charges (₹ 25 lakh); organic certification (₹ 10 lakh) and linkage (₹ 10 lakh). Due to non-utilisation, GOI did not release funds in the subsequent years under these components.

The Department stated (October 2015) that they were responsible for production and area expansion only and the marketing was done by farmers through marketing cooperatives. The reply was not acceptable as GOI Guidelines envisaged for end to end approach which *inter alia* includes creation of marketing facilities for farmers produces.

2.4.12.6 Dovetailing with other schemes

According to the scheme guidelines (para 7.15), some components would be dovetailed into Action Plan from other schemes of the other departments such as micro irrigation, application of fertiliser, construction of irrigation tank, etc. However, it was not initiated by the Department.

The Department while accepting the Audit observation stated (October 2015) that dovetailing with other schemes would be done in future programmes.

2.4.12.7 MoU with GoI and District Implementing Authorities

According to para 12.2 of the NMMP Guideline, MoU between State and GOI, detailing the duties, responsibility and commitments of State and GOI was to be signed between GOI and the State Government for effective implementation of the scheme. The copies of

MoU were not available in the Department. Similarly, MoU between District implementing authorities and the State Government was also not initiated by the Department as of March 2015.

The Department stated (October 2015) that MoUs would be signed in due course.

2.4.12.8 End to end approach

End to end approach covering production, post-harvest management, processing and marketing was required to be initiated by the district authorities as per guidelines (Para-7.15). The Department had not initiated adequate measures to ensure end to end approach, especially post-harvest management. As a result, the farmers were not able to sell their produce as the forest Department was reluctant to issue permits to growers for sale outside the State. Similarly, synergy linkages with production and supply of quality planting materials, processing, quality testing, certification, warehousing as envisaged in the guidelines was not adequately attempted by the Department.

The Department while accepting the Audit observation stated (October 2015) that the post harvesting infrastructure were not created by the Department due to scattered cluster of medicinal plant growers.

2.4.13 Monitoring and Evaluation

Audit Objective-4:

To assess the adequacy and effectiveness of monitoring, evaluation and internal control mechanism.

2.4.13.1 Monitoring

Monitoring of programmes/schemes provide assurance that the organisation's objectives are being achieved and the entity is functioning in an economical, efficient and effective manner.

It was however, noticed that although the Department had carried out monitoring of schemes through field verification from time to time, schedule for monitoring/inspection were not drawn up and the monitoring reports of the inspections were not recorded for initiating corrective actions, if any.

The Department assured (October 2015) that this would be taken care of in future.

2.4.13.2 Internal Audit

Internal Audit occupies an important place in ensuring proper monitoring of schemes/programmes. This also provides assurances to higher management about the functioning of the Department. It was however, noticed that internal audit of the Department had not been conducted by the Directorate of Internal Audit, Finance, Revenue and Expenditure Department (FRED) even once during the review period.

The Department stated (October 2015) that the FRED would be requested to take up Internal Audit.

2.4.13.3 Evaluation

Evaluation of programmes and schemes implemented by the Department was not attempted even once in the last five years. This is despite the fact that all the important programmes such as HMNEH, NBM, NMMI and NMMP had components and funding provision for carrying out such evaluation studies by independent agencies.

The Department stated (October 2015) that this would be done in coming years.

2.4.14 Success story

Ms. Trishna T. Rai, aged 27 years, from Tangji-Bikmat GPU of South district with educational qualification of B Tech took up farming profession with land holding of 1.60 ha. She and her four family members cultivate Dutch Rose in 0.3 ha. Prior to intervention by the Department, production level was very low and the family had difficulty in proper maintenance of the plants and suffered from financial instability. At present, Ms Rai cultivates rose in 2,000 sqm area under protected cultivation mode and produces stem ranging between 13,000 and 20,000 fetching an annual income ranging between ₹ 65,000 and ₹ 1,00,000. She confided that this success was possible owing to support extended by the Department in the form of opportunity for participating in a training programme at Horticulture Training Centre, Pune; assistance for construction of hi-tech green house, planting material, bio-fertiliser, bio-pesticides, drip irrigation; and exposure on various technology for rose cultivation. Of late, she had become the leader in her village in the protected cultivation of high value crops and 60 more farmers of surrounding villages took up rose cultivation under protected condition.

Image 2.4.7



Image 2.4.8



Similarly, Shri Partaman Rai of Poklok-Denchung GPU of South District with land holding of 1.5 ha took up protected cultivation of tomato in 134 sqm area with assistance from Department in the form of inputs like seeds, organic manure, bio-pesticides and low cost bamboo green house with poly pipe and spray machine. His own investment included land, labour and Farm yard manure. Shri Rai started growing tomato crops by adopting new technology like growing seedlings in protray, applying plenty of organic manures and farm yard manures. Bio-pesticides, training and exposure trips increased his production manifold. Shri Rai had planted 270 nos. of tomato seedlings in his green house and harvested and sold 4,050 kg of tomato crop fetching ₹ 1.20 lakh per annum as against

his earlier annual income of ₹ 10,000. Shri Rai has been emulated by 60 farmers who have started tomato cultivation in large-scale thereby raising their income.

2.4.15 Beneficiary survey

Audit carried out (August-September 2015) Beneficiary survey of 100 farmers consisting of 19 females and 81 males across the state. The farmers possessed land holding ranging from 0.1 ha to 4 ha and practiced integrated farming approach in horticulture along with agriculture, animal husbandry, etc. The earning from Horticulture ranged between ₹ 50,000 and ₹ 2,50,000 per annum. The survey revealed that the farmers had received inputs such as seeds, irrigation facilities, green houses, etc. from Department on time and were satisfied with the assistance and support extended by the Department. They highlighted the inadequacy of marketing facilities and requested for improvement in marketing facilities and setting up of collection centres. The farmers however, were dependent upon the Government for replacement of the infrastructure and other inputs for continuance in the farming profession.

2.4.16 Conclusion

Considering the varied topography, scattered and marginal land holdings of the farmers in Sikkim, horticultural crops possessed viable alternative in generating employment and supplementing farmers' income beyond subsistence level. The efforts of the Department through technological transfer, input and infrastructure support such as green houses, irrigation facilities, etc. had helped the farmers in supplementing their income. Some of the farmers have also excelled and earned income ranging between ₹ 0.50 and ₹ 2.5 lakh per annum. However, majority of the farmers were not able to come above the subsistence level primarily owing to small land holding and absence of adequate marketing facilities. The Department, however needed to accelerate conduct of base line survey, formulation of TSG, appropriate preparation of Perspective Plan and Annual Action Plans. The infrastructural facilities such as Integrated Floriculture Pack House, Sorting and Grading line for Sikkim mandarin, etc. should be put to their intended use. The mother blocks should be executed in CoEs to ensure contribution towards improved varieties of various crops as was done in Odisha, Haryana, etc. Suitable steps were required to be initiated to enhance the productivity of fruits, vegetables and spices to catch up with similarly placed States and all India average. This will help to realise full potential of the horticulture and make it an effective tool for accelerating development in the State. The Horticulture Development will receive further fillip once the Department initiates corrective actions in the areas of concern pointed out in this report.

2.4.17 Recommendation

- The Department should initiate action to frame Perspective plan to provide the roadmap for horticulture development. Annual Action plans should also be strengthened by incorporating project reports of all districts distinctly, export

potential and detailed quantification of all inputs and outputs, base line survey and feasibility studies.

- The Department should initiate action to establish mother blocks in Centres of Excellence to contribute towards improved varieties of crops and grow more from less area.
- End to end approach should be initiated to provide all round support commencing from plantation till post-harvest to the farmers.
- Monitoring, evaluation and internal control mechanism should be strengthened to make it more effective.

ENERGY AND POWER DEPARTMENT

2.5 Avoidable expenditure due to retendering of work

Imprudent decision of the Department for re-tendering of work led to extra expenditure of ₹ 2.27 crore on execution.

North Eastern Council (NEC), Government of India approved (December 2011) the work of 'Up-gradation and strengthening of HT and LT lines and sub-stations at helipad area, Bakthang and adjoining places in East Sikkim' at an estimated cost of ₹ 4.63 crore which included the financial grant of 90 *per cent* (₹ 4.17 crore) from GoI. After obtaining (18 February 2012) approval of Government of Sikkim (GoS), the work was tendered (31 March 2012) by the Energy and Power Department (Department). The Department received 21 offers in the tender out of which 20 bidders quoted their rates below the Schedule of Rates, 2008 (SOR) value and only one bidder quoted 26.60 *per cent* above the SOR value.

Since the L1 rate obtained was 32.98 *per cent* below the SOR value, the Department called for explanations from the L1 bidder (Shri Bijay Agarwal). The L1 bidder justified (6 June 2012) his bid citing that he had the required materials²⁴ procured at a cheap cost, favourable location of work site would enable work to progress at faster pace and the firm was having less volume of work in hand. The Department, however, was not satisfied with the clarification of L1 bidder, and hence, scrapped (30 June 2012) the tender and decided to re-tender the work.

In the re-tendering of work, the Department received (27 August 2012) only three bids in which the L1 bidder (Shri Mukesh Agarwal) quoted lowest rate of 16.5 *per cent* above SOR 2008. After negotiation with the L1 bidder, the Department brought down the rate to 14 *per cent* above SOR. Accordingly, a work order for a value of ₹ 5.01 crore was issued

²⁴ Latticed structures, Aluminum conductors, Disc insulators, etc.

(04 February 2013) in favour of the L1 bidder. The work was completed in September 2014.

In this connection Audit observed the following:

- i. In the original tendering, out of the 21 bids received, 20 bidders (95 per cent) quoted the rates below the SOR ranging from 32.98 per cent to 1.5 per cent and only one bidder quoted above the SOR. Considering the above, the action of the Department to scrap the tender was not a prudent and justified decision under the given circumstances.
- ii. While cancelling the original tender, the Department justified the action on the plea that the quality of work of L1 bidder might not be up to the mark due to the unreasonably lower rates quoted. In support of its decision, however, the Department did not cite any previous instances of poor or bad quality of work by the contractors concerned who had quoted rates below SOR. In this connection, it was also observed that during the same period, the Department had issued (August 2012) a work order²⁵ for similar work at a contract value of ₹ 4.68 crore which was at par with SOR value (SOR 2008). The said work had been completed in August 2013. This showed inconsistency in the action and decision making of the Department in the matter of awarding two works of similar nature for execution.
- iii. While 21 bids were received in the original tender, only 3 were received in the re-tender. The bidder who was L1 in the scrapped tender had not submitted his bid in re-tender and 17 bidders who had participated in the original tender had not turned up for purchasing tender documents in the re-tender even though their application were found eligible for issuing the tender documents. The position stated above was indicative of the fact that the re-tendering of the work proved to be less competitive.

Thus, the imprudent decision of the Department to go for re-tendering of work had resulted in an extra expenditure of ₹ 2.27 crore²⁶ on execution of works which was avoidable.

In reply, the Department stated (September 2015) that the work was put to re-tender as it was found that majority of the bidders had quoted the rates arbitrarily with no knowledge of the technical parameters of the work including site conditions. Since the estimate for the work was based on SOR 2008 cost escalation over the years was inevitable and thus feasibility of executing the work duly maintaining the quality seemed to be questionable. It was further stated that the majority of the bidders who had quoted in the original tender had not executed any major works in the Department. The extra expenditure due to re-tendering as pointed out by the Audit is a matter of perception as the quality of work could have been compromised due to lack of expertise besides the probability of time and cost overrun.

²⁵ Work of conversion of existing 440v LT distribution overhead lines including service connection in to UG system at Gyalshing Bazar and its surrounding area in West Sikkim.

²⁶ Work order value ₹ 5,01,26,857 – (value put to tender ₹ 4,08,76,273 – 32.98 per cent below as quoted in the original tender ₹ 1,34,80,995) = ₹ 2,27,31,579.

The reply is not acceptable in view of the fact that all bidders who had participated in the original tender were registered electrical contractors with the Department. Moreover, the Department did not mention about the difficult site conditions and the required technical expertise in the original tender which indicated that the work was of a standard/regular nature. Further, while scrapping the original tender due to lower quotes, the Department did not verify the justification put forth by the L1 bidder for quoting bids below SOR, which establishes the fact that the decision of the Department for re-tendering of work lacked prudence.

2.6 Interest on Mobilisation Advance not recovered

Failure of the Department to communicate the Government approved terms for release of Mobilisation Advance (MA) to the contractor led to non-recovery of interest of ₹ 2.79 crore on MA.

The Energy and Power Department (Department), Government of Sikkim had taken up (December 2006) the work of “Construction of 132 KV transmission line from 132/66 KV sub-station near Lower Lagyap Hydel Project (LLHP) to Sherathang in East Sikkim” at an estimated cost of ₹ 31.01 crore. The Ministry of Development of North East Region (MDONER), Government of India was to provide the financial assistance to the extent of 90 per cent (₹ 27.91 crore²⁷) of the project cost by way of grants. The work was awarded (28 February 2007) through tendering to L1 bidder (Contractor) at a negotiated rate of ₹ 29.98 crore with a scheduled completion period of 24 months (February 2009).

Subsequently, the Contractor requested (March 2007) for grant of Mobilisation Advance (MA) for the project on the plea that the work involved the procurement of costly equipment. Since there was no provision in the Sikkim Financial Rules (SFR) or Public Works Department (PWD) code for release of MA to work contractors, the Department sought (March 2007) the approval of the Government of Sikkim (GoS) in this regard.

The GoS approved (30 March 2007) release of MA amounting to ₹ 6.77 crore against furnishing of Bank Guarantee by the Contractor for equivalent amount and subject to recovery of simple interest at the rate of 5 per cent per annum from the Contractor on the MA so provided.

Accordingly, the Department released (31 March 2007) ₹ 6.77 crore as MA to the Contractor after obtaining the Bank Guarantee²⁸ of equivalent value. The Department, however, had neither communicated nor had entered into any formal agreement with the Contractor regarding levy of interest at 5 per cent per annum on the MA.

Audit observed that although the Department had recovered/adjusted MA (June 2015) of ₹ 6.77 crore from the running bills of the contractor, simple interest amounting to

²⁷ Under Non-Lapsable Central Pool of Resources (NLCPR).

²⁸ (BG No.184-186/2007 dated 31 March 2007).

₹ 2.79 crore on the MA for the period from April 2007 to June 2015 had not been recovered till October 2015.

Thus, failure of the Department to recover interest on MA provided to the Contractor in violation of the directions of GoS led to loss of ₹ 2.79²⁹ crore to the exchequer.

The Department replied (August 2015) that levy of interest on MA was moved by the Department at the time of seeking Government approval but it was found at a later stage that there is no provision in the SFR and as such it was not enforced. While appreciating the audit observation, the Department stated that the audit observation has been noted for future.

The reply is not acceptable in view of the fact that the approval of Government for release of MA was specific on levy of interest at the rate of 5 *per cent* per annum. Hence, the Department should have obtained prior approval of the Government for not enforcing the condition regarding levy of interest on MA.

ROADS AND BRIDGES DEPARTMENT

2.7 Avoidable expenditure

The unwarranted inclusion of item of work Water Bound Macadem (WBM)-III in addition to WBM-I and WBM-II led to extra avoidable expenditure of ₹ 2.32 crore in 16 works.

The various structures in flexible pavement in construction of road works in terms of Indian Road Congress (IRC) as well as Central Public Works Department (CPWD) specification consists, *inter-alia*, of (i) Sub-grade; (ii) Sub-base course; (iii) Base course and (iv) Surface course. **Sub-grade** is the surface of the ground in its final shape after completion of earthwork and consolidation, compaction or stabilisation, **Sub-base course** is a WBM (Water Bound Macadem) laid over the sub-grade with stone aggregate of 90 mm to 45 mm size (WBM-I). **Base course** is also a WBM to be laid either with stone aggregates of 63 mm to 45 mm (WBM-II) or with stone aggregates of sizes 53 mm to 22.4 mm size (WBM-III) with screening. These are the standard base courses used in road works. **Surface course** may, *inter-alia*, consist of surface dressing with hot bitumen or premix carpeting with hot bitumen or bituminous macadam using hot mix plant and paver equipment.

As would be seen from the above specifications, after the Sub-base formation with WBM-I, the standard base courses prescribed for road works, other than National Highways and City Roads with high traffic density, are either water bound macadam with

²⁹ ₹ 6.77 crore x 5/100 x 99/12 months = ₹ 2.79 crore.

stone aggregates of size of 63 mm to 45 mm (WBM-II) or 53 mm to 22.4 mm size (WBM-III) with appropriate screening and binding materials. Thus, the use of both the specifications of WBM-II and WBM-III was beyond the prescribed norms.

Scrutiny of records of the Roads and Bridges Department revealed that during February to November 2014, the Department incorporated the item WBM-III also in addition to WBM-I and WBM-II in 16 works. Since only one out of the two courses of WBM-II and WBM-III at base level was prescribed in IRC as well as CPWD specifications, inclusion of 16,753.916 cum of WBM-III was unwarranted with consequential extra avoidable expenditure of ₹ 2.32 crore as detailed in the **Appendix 2.7.1**.

The matter was reported to Department/Government (May 2015); their reply had not been received (October 2015).

2.8 Undue benefit to the contractor

Non-adherence to the provision of SPW Manual in tendering process, absence of competitive bidding and award of work at abnormally higher tender rate over and above Schedule of Rates (SOR) 2012 rates resulted in an extra expenditure with consequential undue financial benefit to the contractor to the tune of ₹ 2.27 crore and further committed extra benefit of ₹ 5.21 crore on residual work.

The work “*Upgradation and carpeting of Namchi-Phong-Mamring road in South Sikkim*” was approved and sanctioned (February 2013) by Government of India (GOI), Ministry of Development of North Eastern Region at a total cost of ₹ 47.71 crore under Non-Lapsable Central Pool of Resources (NLCPR) with stipulation that completion was to be ensured within 36 months (i.e. by February 2016). The project cost was to be shared between the GOI and the State in the ratio of 90:10, i.e. Centre: ₹ 42.94 crore and the State: ₹ 4.77 crore.

The work was put to e-tender on 6 April 2013 and only two bidders³⁰ with rates of 69.19 per cent and 82.74 per cent above the SOR 2012 participated in the Bid (which was opened on 21 June 2013). Despite participation of less than the mandatory number of three required under the Sikkim Public Works (SPW) Manual [Section 9.6(vi)], that too, with very high and imbalanced tender, the Department validated the tender. The rate of 69.19 per cent as above, offered by M/s MSR Infrabuild (JV) being lower of the 2 bids received, was accepted for consideration.

The estimate being based on SOR 2012, the Department carried out (July 2013) rate analysis³¹ applying the FIDIC formulae and found that the cost escalation/difference of cost for one year (between 2012, the year of SOR and 2013, the year of tender) would be

³⁰ M/s MSR Infrabuild (JV) and M/S SP Enterprise (JV).

³¹ Work analysis was done adopting the FIDIC (The International Federation of Consulting Engineers, having French acronym of “Federation Internationale Des Ingenieurs Conseils”) formulae which was notified (25 April 2012) by the Department itself using whole sale price index for all items from the official website of the office of the Economic Adviser, GOI and from the official site of MoSPI, GOI.

5.45 per cent only indicating that the lowest bid of 69.19 per cent above was very high and imbalanced. Despite being aware of the reasonable/workable rate, instead of rejecting the exorbitantly high tender and inviting fresh tenders as per provision of SPW Manual for ensuring competitive and valid bidding, the Department again analysed (July 2013) the rates. This time, the differential rate between SOR 2012 and the prevailing market rate during May-June 2013 was worked out at 28.42 per cent which was remarkably higher than the initial rate worked out at 5.45 per cent.

Audit scrutiny of 'workability analysis' of 28.42 per cent above revealed that the Department had taken higher cost for all the materials than prevailing market rate, added excess differential cost of 23.56 per cent towards cost of POL and enhanced the labour cost by 28.32 per cent. This was not justifiable as (i) the issue rates of stock materials (fixed on the basis of Proforma Invoice received from STCS) during the same period, were lower than those taken by the Department; (ii) the higher rate of POL was already considered (in-built) for arriving at the total differential cost of materials, hence there was no need to add extra differential cost; (iii) the total enhancement of 28.32 per cent in labour cost within a period of one year was also not acceptable as all labour payments in respect of departmentally executed works were being paid at the prevailing rate of SOR 2012; (iv) another work "Upgradation of Rongli-Rorathang road" with estimated cost of ₹ 17.75 crore based on SOR 2012 and tendered in April 2013 was awarded to a contractor³² at 7 per cent below by the Department and (v) as worked out by the Audit, taking the prevalent market rate of cost of materials and issue rates³³ fixed by the Department and operative during the period, the total enhancement/cost escalation was only 3.74 per cent above the SOR rate of 2012.

In the meantime, the tendered rate of 69.19 per cent above was further negotiated and finalised at 21.50 per cent above. The work order was issued (October 2013) at the negotiated tendered value at ₹ 56.80 crore with the stipulated date of completion of 36 months (October 2016). Work valuing ₹ 24.07 crore (42 per cent) was completed and the payment released as of February 2015.

Thus, despite working out the workability rate of 5.45 per cent adopting the FIDIC formulae based on National Price Index being followed by the Department for working out the cost escalation and without ensuring the reasonability of rate through competitive offers from at least three tenderers as required under SPW Manual, the Department awarded the work at a very high rate of 21.50 per cent above (higher by 16 per cent as compared to 5.45 per cent above worked out by Department itself). The reasonability of the rate of 5.45 per cent based on FIDIC formulae also corroborated with the workability rate analysis of less than 4 per cent as worked out by the Audit. This resulted in an extra expenditure with consequential undue financial advantage to the contractor to the tune of ₹ 7.48 crore (out of which ₹ 2.27 crore had already been paid to the contractor and ₹ 5.21 crore remaining as extra committed liability on residual work).

³² Smt. Devi Dhakal.

³³ Issue rate was fixed by the Department on the basis of Proforma Invoice received from STCS.

The matter was reported (May 2015) to the Government/Department; their reply had not been received (October 2015).

RURAL MANAGEMENT AND DEVELOPMENT DEPARTMENT

2.9 Avoidable expenditure

Unrealistic assessment of damaged houses, improper planning and execution of works resulted in delay in reconstruction of houses, failure in extending intended benefits of providing emergent shelters to displaced victims due to earthquake. Avoidable expenditure of ₹ 1.09 crore was also incurred.

The Rural Management and Development Department (RMDD) submitted (November 2011) Detailed Project Report to the Planning Commission of India through Land Revenue and Disaster Management Department for reconstruction of 7,972 fully/severely damaged houses at an estimated cost of ₹ 455.51 crore³⁴ after the earthquake in Sikkim on 18 September 2011. The Planning Commission of India approved (January 2012) the project “Reconstruction of Earthquake Damaged Rural Houses” (REDRH) under Prime Minister’s Special package which was subsequently revised (January 2012) and reduced to ₹ 391 crore (₹ 389.80 crore for construction and ₹ 1.20 crore for IEC) at unit cost of ₹ 4.89 lakh per house. The work was to be executed by RMDD through Gram Vikash Kendras (GVKs).

7,972 damaged houses were again redistributed among all four districts of Sikkim after noticing faulty distribution of houses in these districts. Such reallocation of houses amongst the districts indicated the fact that initial survey on assessment of damage of houses caused by earthquake was not based on ground realities and thus, it was unrealistic.

The Department initially took a decision (April 2012) to execute the entire work of reconstruction of 7,972 earthquake damaged houses on *Departmental Model* under which the execution and the procurement of materials were to be entirely undertaken by the Department without involving the beneficiary based on State PWD Schedule of Rates (SOR) of 2006. However, it could not make much headway and the Department adopted (December 2012) another model, i.e. *Joint Model* where the materials were to be supplied by the Department through State Trading Corporation of Sikkim (STCS) and Sikkim State Cooperative Supply and Marketing Federation Limited (SIMFED) and the

³⁴ ₹ 453.61 crore for reconstruction and ₹ 1.90 crore for Information, Education and Communication (IEC) and Training related activities.

beneficiaries were to get construction work executed. The Joint Model also failed due to delay in supply of materials. Finally, the Department adopted (October 2013) another model, i.e. *Self Purchase Model* where complete work relating to construction were to be done by the beneficiaries themselves.

In its meeting dated 06 September 2012, the Planning Commission of India had fixed the target date (March 2013) for 50 *per cent* completion of reconstruction of 7,972 damaged houses. While reviewing the progress of work under the National Flagship Programme (12 September 2013), the Planning Commission instructed that the house constructions should be expedited and completed by March 2014. However, as of November 2014, only 2,765 houses (34.69 *per cent*) were completed and 5,207 houses remained incomplete at different stages. Thus, even after a lapse of three years, the Department failed to provide necessary emergent shelters to 5,207 affected families. The reasons behind the inordinate delay were faulty distribution of houses among districts as stated above, delay in executing the suitable model for the project, delay in supply of materials by STCS and SIMFED, shortage/non-deployment of technical persons like Junior Engineers in GVKs and frequent transfer of officers. The delay resulted in cost escalation of cement and TMT bars to the tune of ₹ 1.09 crore³⁵ against the payments made till the date of Audit (February 2015) due to time and cost overrun.

Thus, delay in completion of projects not only led to failure in extending intended benefits of providing immediate shelters to displaced victims due to earthquake but also led to an avoidable expenditure of ₹ 1.09 crore, which would considerably increase after all the works get completed/payments made.

The Department stated (June 2015) that besides non-release of requisite fund by the Government of India (GOI), the initial survey was made by the Land Revenue and Disaster Management Department (LRDMD) and the re-distribution was made on the basis of Gram Sabha meetings held by the Department, which resulted in delay in finalisation of beneficiaries. 174 Junior Engineers were appointed (June 2012 and October 2013) and all AEs/JEs were trained. It was, further stated that the purchase of materials between 2012 and 2014 were within the project period and hence cannot be indicated as cost overrun and time overrun.

The reply was not tenable as there was faulty identification of beneficiaries of houses among districts and re-distribution caused delay in execution of work. Further, despite deploying huge manpower, the Department failed to complete the houses within the scheduled time of March 2014. The reasons for non-release of fund by the GOI was not acceptable as the Department could spend ₹ 213.86 crore out of ₹ 231.04 crore received from GOI till July 2015. As regards cost escalation, there were differences in the rates mentioned in supply orders and those at which final payments had been made indicating cost overrun due to delay in supply of materials by STCS.

³⁵ Cement ₹ 1.02 lakh and TMT bars ₹ 0.6 crore.

SIKKIM HOUSING DEVELOPMENT BOARD

2.10 Non-recovery of loan

Failure to recover and adjust the outstanding loans against the retirement/terminal benefits of the Government employees led to non-recovery of loan to the tune of ₹ 63.94 lakh over a period since May 1994. Also, ₹ 33.57 lakh given to 6 ineligible private persons remained to be recovered and no action had been initiated in respect of 59 employees against the outstanding loan of ₹ 23.51 lakh from the Government employees on roll.

The Sikkim Housing Development Board (SHDB), a Government of Sikkim Enterprise, implemented a Housing Loan Scheme for construction of house/purchase of flat for employees of Government of Sikkim during 1989 to 1997. As per terms and condition, the instalments of loans were required to be deducted from the salary of loanee employees. SHDB was required to obtain an undertaking from Drawing and Disbursing Officers (DDOs) of concerned offices that in case, any loanee employee working in his office applies for resignation from service, the same should not to be accepted until a 'No Objection Certificate' (NOC) from SHDB is produced by the employee.

Scrutiny of records revealed that an amount of ₹ 1.21 crore (out of ₹ 36.61 crore) disbursed during 1990 to 1997 to 103 loanee employees (out of 6,329) was not recovered since May 1994. The Board initiated legal action only in 15 cases leaving 88 cases without any action as mentioned below:

Table 2.10.1

| Defaulter loanees | No. of cases | Amount outstanding (₹ in lakh) | Cases taken to Court | | No action |
|-------------------------------------|--------------|-----------------------------------|----------------------|-------------|-----------|
| | | | Certificate | Under trial | |
| Government employees not in service | 35 | 63.94 | 2 | 6 | 27 |
| Government employees in service | 62 | 23.51 | 1 | 2 | 59 |
| Private | 6 | 33.57 | 2 | 2 | 2 |
| Total Defaulters | 103 | 121.02 | 5 | 10 | 88 |

Scrutiny of records revealed that 35 employees left service/suspended/retired/got terminated/ expired before the settlement of outstanding loans to the tune of ₹ 63.94 lakh (including interest/penal interest) and the outstanding loanees included 6 private individuals against whom ₹ 33.57 lakh was not recovered. The Board was also not aware about the present status of two Government employees suspended in November 1995 and January 2004. Against the outstanding loan of ₹ 23.51 lakh from 62 employees still on roll, no action had been initiated against 59 employees till June 2015. The details are given in **Appendix 2.10.1**.

Thus, inadequate monitoring on monthly recovery by the DDOs, non-pursuance through NOCs, loans to ineligible private persons without proper mortgage, initiating recovery process in only 15 out of 103 cases, absence of follow-up in safeguarding financial interest of the Board, the possibility of recovery of outstanding loans to the tune of ₹ 1.21 crore being defaulted since May 1994 has become remote.

In reply the Board stated (May 2015) that the matter is sub-juice under Sikkim Public Demand Recovery Act (SPDRA) to recover the loan from defaulters. The Board further stated (August 2015) that efforts are being made to get the entire loan settled within 2-3 years. However, fact remained that at present only 15 out of 103 cases were pursued under SPDRA, ₹ 33.57 lakh was given to ineligible persons, timely action was not taken by the Board for recovery of ₹ 1.21 crore and possibility of recovery from employees not in service to the tune of ₹ 63.94 lakh seems remote.

CHAPTER III ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

3.1 Overview of State Public Sector Undertakings

Introduction

3.1.1 The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature keeping in view the welfare of the people. In Sikkim, the SPSUs occupy an insignificant place in the State economy. As on 31 March 2015, there were 15 SPSUs. Of these, none of the companies were listed on the stock exchange. None of the companies were closed down during the year. The details of the SPSUs in Sikkim as on 31 March 2015 are given below.

Table 3.1.1: Total number of SPSUs as on 31 March 2015

| Type of SPSUs | Working SPSUs | Non-working SPSUs ¹ | Total |
|------------------------|---------------|--------------------------------|-----------|
| Government Companies | 7 | 5 | 12 |
| Statutory Corporations | 2 | 1 | 3 |
| TOTAL | 9 | 6 | 15 |

The working SPSUs registered a turnover of ₹ 149.28 crore as per their latest finalised accounts as of September 2015. This turnover was equal to 1.03 *per cent* of State Gross Domestic Product (GDP²) of ₹ 14,517.73 crore for 2014-15. During 2013-14, however, the turnover (₹ 147.55 crore) of working SPSUs was significantly higher at 1.19 *per cent* of State GDP (₹ 12,376.69 crore). During 2014-15, the working SPSUs had incurred an aggregate loss of ₹ 23.66 crore as per their latest finalised accounts as of September 2015 as compared to the aggregate loss of ₹ 12.99 crore incurred by SPSUs during 2013-14. The increase in the aggregate loss of working SPSUs was mainly on account of heavy losses incurred by the power sector SPSU³. The working SPSUs had employed 618 employees as at the end of March 2015.

Accountability framework

3.1.2 The Companies Act 1956 as well as the New Companies Act 2013 have not been extended to the State of Sikkim. The Government Companies in Sikkim are registered under the 'Registration of Companies Act, Sikkim 1961'. The accounts of these State Government companies are audited by Statutory Auditors (Chartered Accountants) who are directly appointed by the Board of Directors (BoDs) of the respective companies. In

¹ Non-working SPSUs are those which have ceased to carry on their operations.

² Source: Department of Economics, Statistics, Monitoring and Evaluation, Government of Sikkim.

³ Serial No.A-6 of Appendix 3.1.2.

addition to the statutory audit conducted by the Statutory Auditors, supplementary audit of these companies had also been taken up by the Comptroller and Auditor General of India (CAG) on the request of the Governor of the State under Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971.

3.1.3 There are three Statutory Corporations in the state, namely, State Bank of Sikkim, State Trading Corporation of Sikkim and Sikkim Mining Corporation established under the proclamation of the erstwhile Chogyal (King) of Sikkim. The accounts of these Corporations are audited by the Chartered Accountants directly appointed by the BoDs of the respective Corporation. Supplementary Audit of these Corporations was taken up by CAG under Section 19(3) of the CAG's (Duties, Powers and Conditions of Service) Act 1971.

Stake of Government of Sikkim

3.1.4 The State Government has huge financial stake in these SPSUs. This stake is of mainly three types:

- **Share Capital and Loans** - In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
- **Special Financial Support** - State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.
- **Guarantees** - State Government also guarantees the repayment of loans with interest availed by the SPSUs from Financial Institutions.

Investment in SPSUs

3.1.5 As on 31 March 2015, the investment (capital and long-term loans) in 15 SPSUs was ₹ 392.88 crore as per details given below.

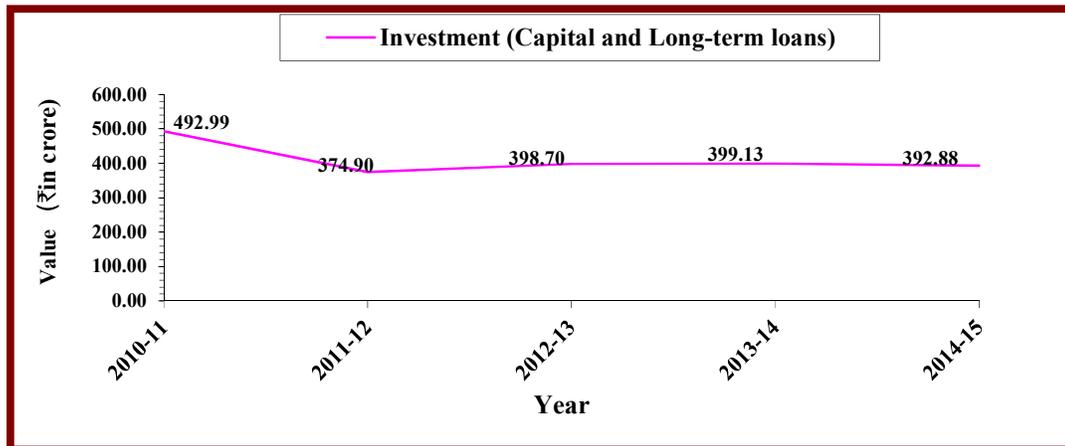
Table 3.1.2: Total investment in SPSUs

(₹ in crore)

| Type of SPSUs | Government Companies | | | Statutory Corporations | | | Grand Total |
|-------------------|----------------------|-----------------|---------------|------------------------|-----------------|--------------|---------------|
| | Capital | Long Term Loans | Total | Capital | Long Term Loans | Total | |
| Working SPSUs | 59.07 | 273.25 | 332.32 | 2.19 | - | 2.19 | 334.51 |
| Non-working SPSUs | 45.87 | 0 | 45.87 | 12.50 | - | 12.50 | 58.37 |
| TOTAL | 104.94 | 273.25 | 378.19 | 14.69 | - | 14.69 | 392.88 |

Out of the total investment of ₹ 392.88 crore in SPSUs as on 31 March 2015, 85.14 per cent was in working SPSUs and the remaining 14.86 per cent was in non-working SPSUs. This total investment consisted of 30.45 per cent in capital and 69.55 per cent in long-term loans. The investment had decreased by 20.31 per cent from ₹ 492.99 crore in 2010-11 to ₹ 392.88 crore in 2014-15 as shown in **Chart-3.1.1**. The decrease (₹ 100.11 crore) was on account of repayment of long term loans by Sikkim Industrial Development and Investment Corporation Limited and Sikkim Power Development Corporation Limited.

Chart 3.1.1: Total investment in SPSUs



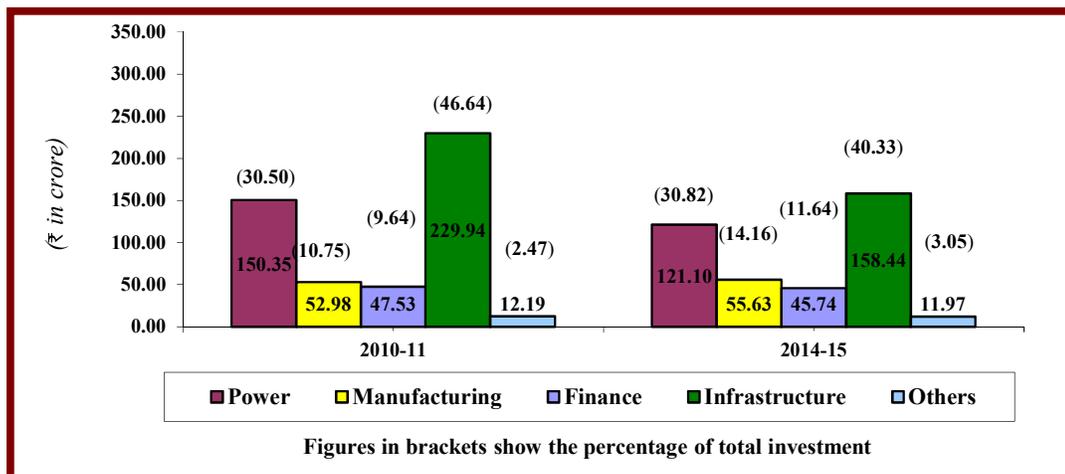
3.1.6 The sector wise summary of investments in the SPSUs as on 31 March 2015 is given below:

Table 3.1.3: Sector-wise investment in SPSUs

| Name of Sector | Government/Other ⁴ Companies | | Statutory corporations | | Total | Investment (₹ in crore) |
|------------------------|---|-------------|------------------------|-------------|-----------|----------------------------|
| | Working | Non-Working | Working | Non-working | | |
| Power | 1 | 0 | 0 | 0 | 1 | 121.10 |
| Manufacturing | 0 | 3 | 0 | 1 | 4 | 55.63 |
| Finance | 1 | 0 | 1 | 0 | 2 | 45.74 |
| Miscellaneous | 0 | 0 | 0 | 0 | 0 | 0.00 |
| Service | 1 | 1 | 1 | 0 | 3 | 8.37 |
| Infrastructure | 1 | 0 | 0 | 0 | 1 | 158.44 |
| Agriculture and Allied | 3 | 1 | 0 | 0 | 4 | 3.60 |
| TOTAL | 7 | 5 | 2 | 1 | 15 | 392.88 |

The investment in five significant sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are indicated in Chart-3.1.2.

Chart 3.1.2: Sector wise investment in PSUs



⁴ 'Other Companies' as referred to under Section 139(5) and 139(7) of the Companies Act 2013.

It could be noticed from **Chart-3.1.2**, during the period of five years from 2010-11 to 2014-15, investment in SPSUs decreased in all sectors excepting the marginal increase of ₹ 2.65 crore in manufacturing sector. The significant decrease in the infrastructure sector was on account of repayment of long term loans (₹ 71.50 crore) by one SPSU (Sikkim Industrial Development and Investment Corporation Limited) during the five years. The thrust of SPSU-investment was mainly in power⁵ and infrastructure sectors, which constituted more than 70 per cent of the total investment (₹ 392.88 crore) in SPSUs during 2014-15.

Special support and returns during the year

3.1.7 The State Government provides financial support to SPSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written-off and interest waived in respect of SPSUs are given in **Table-3.1.4** for three years ended 2014-15.

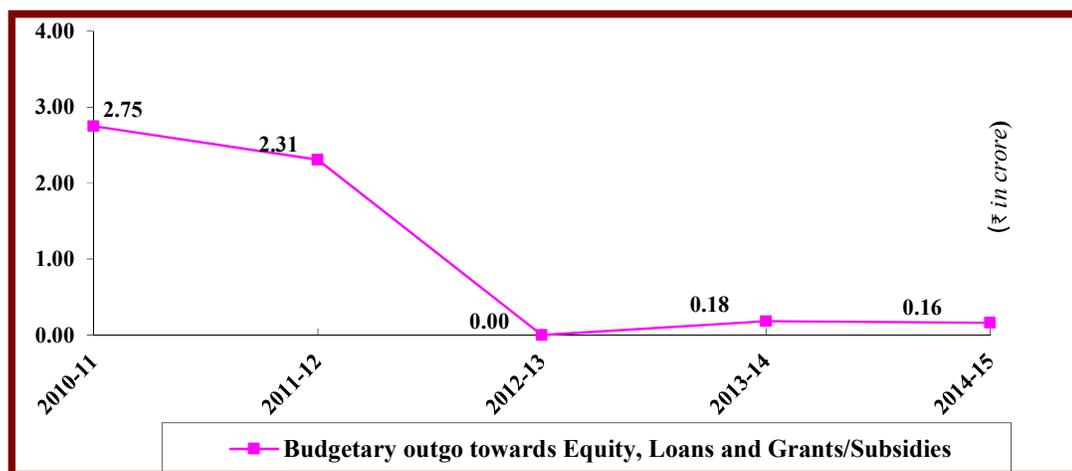
Table 3.1.4: Details regarding budgetary support to SPSUs

| Sl. No. | Particulars | 2012-13 | | 2013-14 | | 2014-15 | |
|---------|----------------------------------|--------------|--------|--------------|-------------|--------------|-------------|
| | | No. of SPSUs | Amount | No. of SPSUs | Amount | No. of SPSUs | Amount |
| 1 | Equity Capital outgo from budget | - | - | - | - | - | - |
| 2 | Loans given from budget | - | - | - | - | - | - |
| 3 | Grants/Subsidy from budget | - | - | 1 | 0.18 | 1 | 0.16 |
| 4 | Total Outgo (1+2+3) | - | - | 1 | 0.18 | 1 | 0.16 |
| 5 | Waiver of loans and interest | 3 | 1.22 | - | - | 1 | 0.06 |
| 6 | Guarantees issued | 1 | 1.07 | 2 | 131.76 | 1 | 96.57 |
| 7 | Guarantee Commitment | 2 | 162.84 | 2 | 120.96 | 2 | 109.50 |

(₹ in crore)

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in **Chart-3.1.3**.

Chart 3.1.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies



⁵ Serial No.A-6 of Appendix 3.1.2.

It may be observed from **Chart-3.1.3** that during the period of five years from 2010-11 to 2014-15, the budgetary outgo was the highest (₹ 2.75 crore) in 2010-11 and had shown decreasing trend thereafter upto 2012-13, when there was no budgetary outgo to any of the SPSUs. During 2013-14 and 2014-15, there was a total budgetary outgo of ₹ 0.18 crore and ₹ 0.16 crore respectively by way of grants to one SPSU, namely, Sikkim Poultry Development Corporation Limited. As could be noticed from **Table-3.1.4**, the guarantee commitment has decreased from ₹ 162.84 crore (2012-13) to ₹ 109.50 crore (2014-15) mainly due to the repayment of loans by Sikkim Industrial Development and Investment Corporation Limited during previous three years. As on 31 March 2015, guarantee commitment of ₹ 109.50 crore were outstanding against two SPSUs, namely, Sikkim Industrial Development and Investment Corporation Limited and Sikkim Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited.

Reconciliation with Finance Accounts

3.1.8 The figures in respect of equity, loans and guarantees outstanding as per the records of SPSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the SPSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2015 is given in **Table-3.1.5**.

Table 3.1.5: Equity, loans, guarantees outstanding as per Finance Accounts vis a vis records of SPSUs

(₹ in crore)

| Outstanding in respect of | Amount as per Finance Accounts | Amount as per records of SPSUs | Difference |
|---------------------------|--------------------------------|--------------------------------|------------|
| Equity | 80.69 | 89.63 | 8.94 |
| Loans* | 37.03 | 2.03 | 35.00 |
| Guarantees* | 109.50 | 109.50 | Nil |

* SPSU-wise figures of loans/guarantee not available in the Finance Accounts of the State.

Audit observed that the differences occurred in respect of 11⁶ SPSUs and some of the differences were pending reconciliation since 2004-05. It was further observed that the un-reconciled differences in respect of equity of SPSUs decreased by ₹ 2.34 crore during the year from ₹ 11.28 crore (2013-14) to ₹ 8.94 crore (2014-15). The Accountant General had pursued the issue regularly with the Principal Secretary (Finance), Government of Sikkim and the heads of the SPSUs concerned for early reconciliation of long pending differences. No significant progress, was, however, seen in the matter. The Government and the SPSUs concerned should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

3.1.9 The Companies Act 1956/Companies Act 2013 have not been extended to the State of Sikkim. The Government Companies in Sikkim are registered under the

⁶ Except for Serial No.A-1,B-9, C-10 and C-11 of **Appendix 3.1.2**.

Registration of Companies Act, 1961 while the Statutory Corporations are governed under the proclamation of the erstwhile Chogyal (King) of Sikkim. The **Table-3.1.6** provides the details of progress made by working SPSUs in finalisation of accounts as of 30 September 2015.

Table 3.1.6: Position relating to finalisation of accounts of working SPSUs

| Sl. No. | Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---------|---|---------|---------|---------|---------|---------|
| 1 | Number of Working SPSUs | 11 | 8 | 8 | 8 | 9 |
| 2 | Number of accounts finalised during the year | 8 | 7 | 10 | 5 | 3 |
| 3 | Number of accounts in arrears | 22 | 20 | 18 | 21 | 28 |
| 4 | Number of Working PSUs with arrears in accounts | 9 | 8 | 7 | 8 | 9 |
| 5 | Extent of arrears (numbers in years) | 1 to 5 | 1 to 4 | 1 to 4 | 1 to 5 | 1 to 6 |

From the **Table-3.1.6**, it could be noticed that the number of accounts in arrears had shown a decreasing trend upto 2012-13. During previous two years, however, the working SPSUs have finalised only 8 accounts. As a result, the backlog of accounts of working SPSUs had increased from 18 accounts (2012-13) to 28 accounts (2014-15), which included arrears of 12 accounts relating to 2 SPSUs (namely, Sikkim Poultry Development Corporation Limited and Sikkim Hatcheries Limited). The delay in finalisation of accounts of the working SPSUs was due to delay in compilation/adoption of accounts by the Board of Directors of respective SPSUs.

The Administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these SPSUs within the stipulated period. The Departments/Ministries concerned were informed regularly (on quarterly basis) of the arrears in finalisation of accounts by these SPSUs. No improvement was, however, noticed in the position of arrears of accounts of the SPSUs.

3.1.10 The State Government had invested ₹ 0.16 crore in one SPSU (Sikkim Poultry Development Corporation Limited) by way of grant during the years the accounts of the SPSU have not been finalised as detailed in **Appendix 3.1.1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the said investment had been properly accounted for and the purpose for which the amount invested was achieved or not. Thus, Government's investment in the said SPSU remained outside the control of State Legislature.

3.1.11 In addition to above, there were arrears in finalisation of accounts by non-working SPSUs as on 30 September 2015. None of the six non-working SPSUs were in the process of liquidation. The six non-working SPSUs have arrears of 50 accounts as of September 2015 as detailed in **Table-3.1.7**.

Table 3.1.7: Position relating to arrears of accounts in respect of non-working SPSUs

| No. of Non-working SPSUs | Period for which accounts were in arrears | No. of accounts in arrears |
|--------------------------|---|----------------------------|
| 2 | 1995-96 to 2014-15 | 40 |
| 1 | 2011-12 to 2014-15 | 4 |
| 3 | 2013-14 to 2014-15 | 6 |
| 6 | TOTAL | 50 |

Placement of Separate Audit Reports

3.1.12 The position depicted in **Table-3.1.8** shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2015) on the accounts of Statutory Corporations in the Legislature.

Table 3.1.8: Status of placement of SARs in Legislature

| Sl. No. | Name of Statutory Corporation | Year up to which SARs placed in Legislature | Year for which SARs not placed in Legislature | |
|---------|-------------------------------------|---|---|---------------------------------|
| | | | Year of SAR | Date of issue to the Government |
| 1 | State Bank of Sikkim | 2007-08 | 2008-09 to 2010-11 | 20 December 2013 |
| 2 | State Trading Corporation of Sikkim | 2010-11 | - | - |

Impact of non-finalisation of accounts

3.1.13 As pointed out above (*para 3.1.9 to 3.1.11*), the delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the above state of arrears of accounts, the actual contribution of SPSUs to the State GDP for the year 2014-15 could not be ascertained and their contribution to State Exchequer was also not reported to the State Legislature.

It is, therefore, recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set targets for individual SPSUs which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lack expertise.**

Performance of SPSUs as per their latest finalised accounts

3.1.14 The financial position and working results of working Government Companies and Statutory Corporations are detailed in **Appendix 3.1.2**. A ratio of SPSU turnover to State GDP shows the extent of SPSU activities in the State economy. **Table-3.1.9** provides the details of working SPSU turnover and State GDP for a period of five years ending 2014-15.

Table 3.1.9: Details of working PSUs turnover vis-a vis State GDP

| Particulars | ₹ in crore) | | | | |
|-------------------------------------|-------------|----------|-----------|-----------|------------------------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Turnover | 42.81 | 86.43 | 143.91 | 147.55 | 149.28 ⁷ |
| State GDP | 7,411.57 | 8,906.64 | 10,472.60 | 12,376.69 | 14,517.73 ⁸ |
| Percentage of Turnover to State GDP | 0.58 | 0.97 | 1.37 | 1.19 | 1.03 |

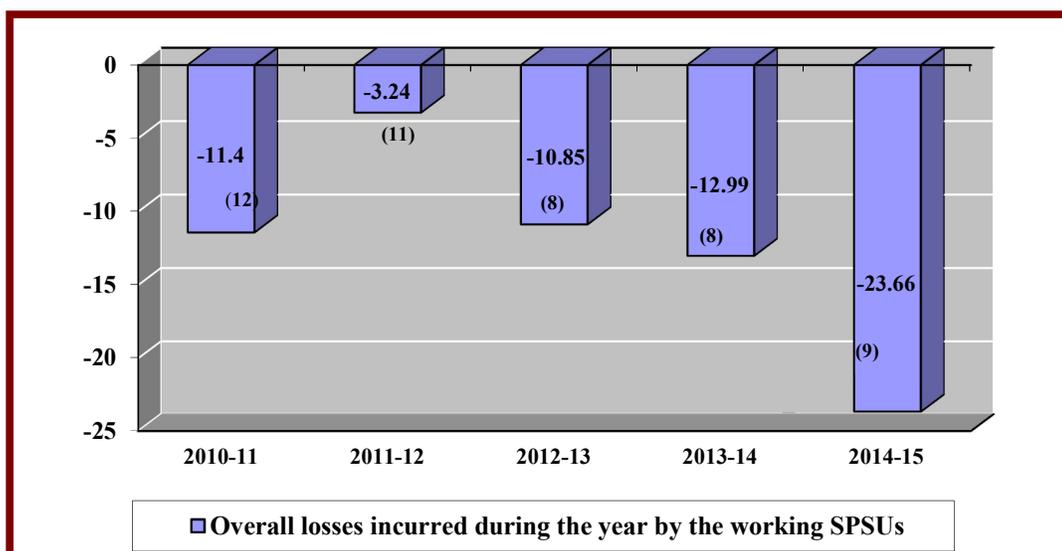
⁷ Turnover as per the latest finalised accounts as of 30 September 2015.

⁸ Source: Department of Economics, Statistics, Monitoring and Evaluation, Government of Sikkim.

It may be noticed that during 2010-11 to 2014-15, the State GDP had grown by 95.88 *per cent* while the increase in turnover of SPSUs during the corresponding period was to the extent of 248.70 *per cent*. Thus, there was appreciable growth in SPSUs turnover during the period of five years from 2010-11 to 2014-15 as compared to the growth in the state GDP during the corresponding period. As a result, the percentage of SPSUs turnover to state GDP has increased from 0.58 (2010-11) to 1.03 (2014-15) in five years period, though it declined from the last year.

3.1.15 Overall losses incurred by working SPSUs during 2010-11 to 2014-15 are given in **Chart-3.1.4**.

Chart 3.1.4: Losses of working SPSUs



(Figures in brackets show the number of working SPSUs in respective years)

As per the latest finalised accounts of nine working SPSUs as on 30 September 2015, three⁹ SPSUs earned profit of ₹ 4.17 crore and six SPSUs incurred loss of ₹ 27.83 crore. The major contributor to profit was Sikkim Industrial Development and Investment Corporation Limited (₹ 3.28 crore). The heavy losses were incurred by Sikkim Power Development Corporation Limited (₹ 16.64 crore) and State Bank of Sikkim (₹ 7.05 crore). As could be noticed from **Chart-3.1.4**, the overall losses incurred by working SPSUs showed an increasing trend after 2011-12. During the four years from 2011-12 to 2014-15, the overall losses had increased by more than seven fold from ₹ 3.24 crore (2011-12) to ₹ 23.66 crore (2014-15). The increase in the overall losses of working SPSUs was mainly attributable to the losses incurred by two SPSUs (namely, Sikkim Power Development Corporation Limited and State Bank of Sikkim) during the last four years.

3.1.16 Some other key parameters of SPSUs are given in **Table-3.1.10**.

⁹ Serial No.A-5,7 and B-9 of **Appendix 3.1.2**.

Table 3.1.10: Key Parameters of State PSUs

| Particulars | ₹ in crore) | | | | |
|--|-------------|---------|---------|---------|---------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Return on Capital Employed (<i>per cent</i>) | 2.00 | 5.24 | 4.30 | 4.36 | 3.91 |
| Debt | 395.91 | 260.93 | 279.07 | 273.89 | 273.25 |
| Turnover ¹⁰ | 42.81 | 86.43 | 143.91 | 147.55 | 149.28 |
| Debt/ Turnover Ratio | 9.25:1 | 3.02:1 | 1.94:1 | 1.86:1 | 1.83:1 |
| Interest Payments | 24.56 | 64.90 | 87.49 | 90.15 | 88.16 |
| Accumulated losses | 69.82 | 83.57 | 90.29 | 97.92 | 117.72 |

There was constant improvement in Debt-Turnover Ratio after 2010-11. During 2014-15, it decreased by 0.03 *per cent* due to decrease in the debts of Sikkim Industrial Development and Investment Corporation Limited. Further, during last four years, the percentage of Return on capital employed has decreased from 5.24 *per cent* (2011-12) to 3.91 *per cent* (2014-15) mainly due to heavy losses incurred by two SPSUs, viz. Sikkim Power Development Corporation Limited and State Bank of Sikkim during this period.

3.1.17 The State Government had not formulated (October 2015) any dividend policy regarding payment of minimum dividend by SPSUs. As per their latest finalised accounts as on 30 September 2015, three¹¹ SPSUs earned aggregate profit of ₹ 4.17 crore, however, only one SPSU¹² declared dividend of ₹ 0.51 crore.

Winding up of non-working SPSUs

3.1.18 There were six non-working SPSUs (five Companies and one Statutory Corporation) as on 31 March 2015. All these SPSUs mentioned above are closed down (April 2011) under the order of the Government. The Government Companies in Sikkim are registered under the Registration of Companies Act, 1961 while Statutory Corporations are governed under the proclamation of the erstwhile Chogyal (King) of Sikkim. There was, however, no prescribed procedure for liquidation of Government Companies/Statutory Corporations under their respective governing Act/Statute. The numbers of non-working SPSUs at the end of each year during past five years are given in Table-3.1.11.

Table 3.1.11: Non-working SPSUs

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---------------------------------|----------|----------|----------|----------|----------|
| No. of non-working companies | 3 | 6 | 6 | 6 | 5 |
| No. of non-working corporations | 1 | 1 | 1 | 1 | 1 |
| TOTAL | 4 | 7 | 7 | 7 | 6 |

3.1.19 The stages of closure in respect of non-working SPSUs are given in Table-3.1.12.

Table 3.1.12: Closure of Non-working SPSUs

| Sl. No. | Particulars | Companies | Statutory Corporations | Total |
|---------|---|-----------|------------------------|-------|
| 1 | Total No. of non-working SPSUs | 5 | 1 | 6 |
| 2 | Of (1) above, the No. under: | - | - | - |
| (a) | Liquidation by Court (liquidator appointed) | Nil | Nil | Nil |
| (b) | Voluntary winding up (liquidator appointed) | Nil | Nil | Nil |
| (c) | Closure, i.e. closing orders/instructions issued but liquidation process not yet started. | 5 | 1 | 6 |

¹⁰ Turnover of working SPSUs as per their latest finalised accounts as on 30 September of respective year.

¹¹ Serial No.A-5, A-7 and B-9 of Appendix 3.1.2.

¹² Serial No.A-5 of Appendix 3.1.2.

In the absence of specific provisions regarding winding up of non-working SPSUs in the Registration of Companies Act 1961/proclamation of the erstwhile Chogyal (King) of Sikkim, the Government needs to specify the procedure and initiate the liquidation process for the above mentioned six closed down SPSUs.

Accounts Comments

3.1.20 Three working companies forwarded their three audited accounts to Accountant General during the year 2014-15 (October 2014 to September 2015). Of these, only one year accounts of one company were selected for supplementary audit and two accounts pertaining to two companies were issued Non-Review Certificates. The details of aggregate money value of comments of Statutory Auditors and CAG are given in **Table-3.1.13**.

Table 3.1.13: Impact of audit comments on working Companies

(₹ in crore)

| Sl. No. | Particulars | 2012-13 | | 2013-14 | | 2014-15 | |
|---------|----------------------------------|-----------------|--------|-----------------|--------|-----------------|--------|
| | | No. of accounts | Amount | No. of accounts | Amount | No. of accounts | Amount |
| 1 | Decrease in profit | Nil | Nil | Nil | Nil | Nil | Nil |
| 2 | Increase in loss | 1 | 0.04 | 3 | 1.45 | 1 | 0.01 |
| 3 | Non-disclosure of material facts | Nil | Nil | 1 | 1.34 | 1 | 0.02 |
| 4 | Errors of classification | Nil | Nil | 1 | 0.84 | Nil | Nil |

During the year, Statutory Auditors had given qualified opinions to all the three accounts of the three SPSUs. During 2014-15, none of the Statutory Corporations had submitted their finalised accounts to the Accountant General for audit.

Response of the Government to Audit

Performance Audits and Paragraphs

3.1.21 For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015, two audit paragraphs involving two Departments were issued to the Secretaries of the respective Departments with request to furnish replies within six weeks. However, the replies in respect of one audit paragraph was awaited from the State Government (October 2015).

Follow up action on Audit Reports

Replies outstanding

3.1.22 The Report of the CAG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. According to instructions issued by the Finance, Revenue and Expenditure Department (FRED), Government of Sikkim, all the Administrative departments concerned were required to furnish explanatory notes on the paragraphs/performance audits included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature, in the prescribed format without waiting for any questionnaires from the Public Accounts Committee.

Table 3.1.14: Explanatory notes not received (as on 30 September 2015)

| Year of the Audit Report (Commercial/PSU) | Date of placement of Audit Report in the State Legislature | Total Performance audits (PAs) and Paragraphs in the Audit Report | | Number of PAs/ Paragraphs for which explanatory notes were not received | |
|---|--|---|------------|---|------------|
| | | PAs | Paragraphs | PAs | Paragraphs |
| 2011-12 | 27 April 2013 | 1 | 4 | 1 | 4 |
| 2012-13 | 28 June 2014 | 0 | 2 | 0 | 2 |
| 2013-14 | 17 March 2015 | 1 | 4 | 1 | 4 |
| TOTAL | - | 2 | 10 | 2 | 10 |

From the Table-3.1.14, it could be seen that explanatory notes to none of the above mentioned 10 paragraphs and 2 performance audits pertaining to seven¹³ Companies/Corporations and one Department (Energy and Power Department) were received (October 2015).

Discussion of Audit Reports by Public Accounts Committee

3.1.23 The status as on 30 September 2015 of Performance Audits (PAs) and paragraphs relating to SPSUs that appeared in State Audit Reports and discussed by the Public Accounts Committee (PAC) was as detailed in Table-3.1.15.

Table 3.1.15: Performance Audits/Paras relating to SPSUs appeared in Audit Reports vis-a-vis discussed as on 30 September 2015

| Period of Audit Report | Number of PAs/paragraphs | | | |
|------------------------|--------------------------|------------|-----------------|------------|
| | Appeared in Audit Report | | Paras discussed | |
| | PAs | Paragraphs | PAs | Paragraphs |
| 2009-10 | 0 | 4 | Nil | Nil |
| 2010-11 | 1 | 3 | Nil | Nil |
| 2011-12 | 1 | 4 | Nil | Nil |
| 2012-13 | 0 | 2 | Nil | Nil |
| 2013-14 | 1 | 4 | Nil | Nil |
| TOTAL | 3 | 17 | Nil | Nil |

During the year 2009-10 to 2013-14 total 3 PAs and 17 paragraphs relating to SPSUs had appeared in the State Audit Reports. All 3 PAs and 17 paragraphs were, however, pending for discussion by the Public Accounts Committee (October 2015).

Compliance to Reports of Public Accounts Committee

3.1.24 Action Taken Notes to seven recommendations pertaining to three Reports of the Public Accounts Committee (PAC) presented to the State Legislature as of March 2015 had not been received (October 2015) as indicated in Table-3.1.16.

Table No. 3.1.16: Compliance to Reports of Public Accounts Committee

| Year of the PAC Report | Total Number of PAC Reports | Total no of Recommendation in PAC Report | No of Recommendations where ATNs not received |
|------------------------|-----------------------------|--|---|
| 2008-09 | 1 | 2 | 2 |
| 2009-10 | 1 | 3 | 3 |
| 2010-11 | 1 | 2 | 2 |

It is recommended that the Government may ensure:

¹³ Serial No.A-1, 4, 5 and 6, B-8 and 9 and D-15 of Appendix 3.1.2.

- **furnishing of replies to Inspection Reports/Explanatory Notes/Draft Paragraphs/Performance Audits and Action Taken Notes on the recommendations of PAC as per the prescribed time schedule;**
- **recovery of loss/outstanding advances/overpayments within the prescribed period and**
- **revamping of the system of responding to audit observations.**

Coverage of this report

3.1.25 This Chapter on SPSUs contains two paragraphs involving financial effect of ₹ 0.57 crore.

Disinvestment, Restructuring and Privatisation of SPSUs and any reforms in power sector

3.1.26 The Energy and Power Department, Government of Sikkim continued to function as a Government Department and no reforms were implemented in the power sector as envisaged in the Electricity Supply Act, 2003.

SIKKIM STATE CO-OPERATIVE BANK LIMITED

3.2 Fraudulent withdrawal of cash

Failure of the internal control system and serious negligence on the part of branch officials led to fraudulent withdrawal of cash aggregating ₹ 24.12 lakh at Hee Gaon Branch.

The Sikkim State Co-operative Bank Limited (the Bank), a registered Co-operative society under Sikkim Co-operative Societies Act 1978, is the Apex Cooperative Bank for the State of Sikkim. The Bank is governed by the Banking Regulation Act 1949 and is covered under the purview of Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD). The audit of the Bank is entrusted to CAG by the Government of Sikkim in terms of Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971.

The Bank, in addition to its role as Apex Bank, functions as a developmental bank providing financial assistance for different kinds of economic activities in the State. The Bank performs the banking operations through its 14 branches spread across the State of Sikkim.

Hee Gaon Branch (Branch) of the Bank headed by a Branch Manager, was opened in the year 2012. The Branch, however, had comparatively lesser business. Normally, all transactions in the branches need to undergo proper checks by the bank staffs. Cash

withdrawals from the accounts of the customers are approved only after proper verification of cheque and its authorisation for payment by the Branch Manager.

During the audit of daily transaction vouchers of Hee Gaon Branch for the month of March 2015, Audit *prima facie* noticed several serious deficiencies in some of the payment vouchers (paid cheques) as illustrated below:

- non-authorisation of the voucher;
- unsigned cheques (only name written on the cheques);
- mismatch of the signature on the cheques with the specimen signature of the account holders;
- difference between the cheque amount written in words and figures; and
- non-mentioning of the Account Number on the cheque.

Considering the seriousness of the issue, Audit took up (25 June 2015) the detailed scrutiny of payment transactions of the Branch covering the period from January 2015 to June 2015. Scrutiny revealed the following:

- (i) A cheque book of 50 leaves (series 31601 to 31650) recorded to have been issued to Shri Dawa Gyatso Bhutia against his Account No.101234001000209 was used for cash withdrawal from the accounts of other customers bearing distinct account numbers. Besides the above, a cheque book bearing series 31326 to 31350 issued to Shri Milan Kumar Limboo in respect of Account No.101234001000489 was also used for fraudulent withdrawal from other accounts.
- (ii) Audit traced out 19 transactions of fraudulent cash withdrawals aggregating ₹ 24.12 lakh using the above cheque books as listed in **Appendix 3.2.1**.
- (iii) The Bank issued distinct series of cheques to individual account holders which could not be used for withdrawal of money from other accounts. As per the controls envisaged in the computer system, an alert notification would appear on the monitor when a cheque, different from the cheque series issued to the account holder, is entered in the system for payment. In such a situation, if the transaction is to be proceeded further, it would be possible only with another authorisation key. For accessing the computer system, only the bank officials have been provided with unique Login ID and Password. The said Login ID and Password needed to be kept secret by the Branch officials for entering, verifying and passing of transactions for payments. In the instant cases, all the cheques were out of the series; as such the payments as detailed in the **Appendix 3.2.1** have been effected only by use of additional authorisation key.
- (iv) Further, from the 19 fraudulent transaction pointed out above, it was observed that:
 - (a) in 9¹⁴ cases cheques were not authorised for payment;

¹⁴ Sl.No.1 to 7,16,18 and 19 of **Appendix 3.2.1**.

- (b) in 3¹⁵ cases cheques did not bear Account number;
- (c) in 10¹⁶ cases though signatures were verified, the same did not match with the specimen signature of the account holders and
- (d) in 1¹⁷ case, although the account holder's specimen signature was in Nepali language, cheque signed in English (forged) was passed for payment.

The cases mentioned above indicated that the payment authorising official failed to verify the genuineness of the cheques before passing them for payment. Further, before making the payment against the above mentioned cheques, the cashier also failed to exercise minimum diligence of ensuring that all these cheques were properly authorised for payment.

- (v) The Concurrent Auditor of the Bank also failed to notice such obvious discrepancies in the transactions.
- (vi) One finished cheque book (series 31601 to 31625), was recovered from the possession of the security staff of the Branch. During the course of audit, it was alleged by the bank staff that the said cheque book might have been obtained by the security staff by manipulating entry in the Cheque Book Issue Register. The balance unused/cancelled cheques were, however, not found in the cheque book recovered from the security person. The bank staff claimed that the said cheques might have been destroyed by the security person.

Thus, failure of the internal control system and serious negligence on the part of branch officials led to fraudulent withdrawal of cash aggregating ₹ 24.12 lakh at Hee Gaon Branch.

The Bank stated (November 2015) that there were blatant violation of systems and procedures though no fraud or financial loss had been caused on the Bank. It was further stated that domestic enquiry into the transactions had been initiated and in order to prevent recurrence of such incidents, the Bank had introduced Internal Transaction audit of branches.

The Government replied (November 2015) that based on the above audit finding, an enquiry committee had been constituted under Sikkim Cooperatives Societies Act 1978 to ascertain the factual position of fraudulent case. It was further stated that the enquiry committee would submit its report by the first week of December 2015.

The reply of the Bank that no fraud/fraudulent transactions had taken place was not tenable in view of the facts that cash withdrawals, amounting to ₹ 24.12 lakh, were made fraudulently using illegally secured cheques, forging signatures and through unauthorised access to the system. The report of the enquiry committee stated to have constituted by the Government and action taken thereon were, however, awaited (November 2015).

¹⁵ Sl.No.5, 8 and 9 of *Appendix 3.2.1*.

¹⁶ Sl.No.8 to 15 and 17 of *Appendix 3.2.1*.

¹⁷ Sl.No.10 of *Appendix 3.2.1*.

SIKKIM TOURISM DEVELOPMENT CORPORATION LIMITED

3.3 Avoidable payment and idle expenditure

The Corporation paid ₹ 0.33 crore to the contractor for the work components not executed and did not utilise components created at a cost of ₹ 0.31 crore.

With a view to develop tourism in the State, the Government of Sikkim (GoS) envisaged the development and implementation of an interactive website providing a host of services for tourists including online booking facility for hotels, vehicles, helicopter, navigation facilities, etc. The Sikkim Tourism Development Corporation Limited (Company), which was responsible for development of tourism in the State was assigned with the responsibility to complete the above project. The project also included office automation of the Company and was taken up with 100 *per cent* financial assistance aggregating to ₹ 2.03 crore¹⁸ by way of grant from North Eastern Council (NEC), Government of India.

The Company awarded (June 2010) the project work of development of e-commerce web portal to M/s SIBIN Group (Contractor) at a contract value of ₹ 2.14 crore. The project was required to be completed within one year (June 2011) after award (June 2010) of work. The scope of the work *inter-alia* included the works relating to online booking portal, helicopter booking, vehicle management system, automation of office, asset information system and employee management information system.

Review of the project records and modules hosted on the web site¹⁹ of the Company revealed that the Contractor had not carried out/implemented several important components of the project works costing ₹ 0.33 crore as detailed below:

Table 3.3.1

| Sl. No. | Scope of the envisaged Module/Software | Actual Work done | Amount (₹ in crore) |
|--------------|---|---|---------------------|
| 1 | Online booking module in the website for Helicopter Booking by specifying search criteria like date of travel, number of passengers destination including online payment facility. | Facility for online booking and payment for Helicopter and Taxi services not installed in the web. Instead, | 0.12 ²⁰ |
| 2 | Online booking module in the website for Taxi Reservation by specifying search criteria like date of travel, number of passengers, destination, and vehicle type including online payment facility. | guideline/information for offline booking only was provided in the web. | 0.15 ²¹ |
| 3 | Provision of an application software, viz. Vehicle Management System for effective management of the Corporation's five luxury taxis. | No such software available in the Corporation's computers. | 0.06 ²² |
| TOTAL | | | 0.33 |

¹⁸ Released ₹ 0.24 crore in April 2010, ₹ 0.49 crore in April 2011 and ₹ 1.30 crore in March 2012.

¹⁹ www.sikkimstdc.com

²⁰ System Requirement Study (SRS) and freezing ₹ 0.01 crore plus Application Development cost ₹ 0.11 crore.

²¹ ₹ 0.01 crore for SRS and freezing and ₹ 0.14 crore for Application and Development.

²² (₹ 0.01 crore for SRS and ₹ 0.05 crore for development).

Despite the above mentioned deficiencies in completion of the project work, the Company released (April 2012) the payment of ₹ 0.33 crore to the Contractor in respect of the modules not made available on the web and software/work not provided to the project.

Audit further observed that various application software components developed with a value of ₹ 0.31 crore remained unutilised/underutilised by the Company as detailed below:

Table 3.3.2

| Sl. No. | Application Software installed | Utilisation of the Application Software | Amount (₹ in crore) |
|--------------|---|---|------------------------|
| 1 | Installation of an application software, viz. Human Resource Information Management System (HRIMS) in the in-house computer system with ability to generate various employee related reports including payroll preparation. The software was installed in March 2013. | Yet to be utilised by the Company even after 17 months of its installation. Data entry not made into the software and all required reports and payroll being done manually due to delay in imparting of necessary training to the employees of the company by the contractor. | 0.08 ²³ |
| 2 | Installation of an application software, viz. Asset Management. Incorporated along with HRIMS in March 2013. | | 0.07 ²⁴ |
| 3 | Application software for online hotel reservation system. Accordingly, an online booking system for hotels has been incorporated (since June 2013) in the web site. | Of the 22 locations ²⁵ incorporated in the online booking module, only 11 hotels in two locations (10 in Gangtok and one in Pelling) were provided with hotel information and online booking. | 0.16 ²⁶ |
| TOTAL | | | 0.31 |

Thus, the Company irregularly released payment of ₹ 0.33 crore to the contractor against the work components not executed and also could not fully utilise the facilities created at a cost of ₹ 0.31 crore, thereby defeating the intended objectives of the project.

The Company stated (August 2015) that the helicopter service is used mainly for the purposes like medical emergencies, departmental exigencies, etc., instead of being restricted to ferrying passengers; and thus, the use of the booking facility developed was restricted. Further, the built in facilities for online booking of Taxi service and Vehicle Management System could not be used due to small size of available vehicle fleet. The Company further stated that the Human Resource Information Management System (HRIMS) and Asset Management are installed and the details are uploaded.

The plea of the Company regarding restricted use of helicopter services and availability of small vehicle fleet raises questions on the investment made by the Company for installation of on-line booking portal under the project. Further, the reply regarding installation of HRIMS and Asset Management does not address the audit observation

²³ (₹ 0.01 crore for SRS + ₹ 0.07 crore for development).

²⁴ (₹ 0.01 crore for SRS and ₹ 0.06 crore for development).

²⁵ 20 in Sikkim and two outside.

²⁶ ₹ 0.01 crore for SRS and ₹ 0.15 crore for Application development cost.

regarding preparation of all related reports and pay rolls manually despite availability of system.

The matter was reported (May 2015) to the Government; their reply had not been received (October 2015).

CHAPTER IV REVENUE SECTOR

4.1 Trend of revenue receipts

4.1.1 The tax and non-tax revenue raised by the Government of Sikkim during the year 2014-15, the State's share of net proceeds of divisible Union taxes and duties assigned to States and Grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table-4.1.1**:

Table 4.1.1
Trend of revenue receipts

| | | (₹ in crore) | | | | |
|---|--|--------------|-----------|-----------|-----------|-----------|
| Sl. No. | | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Revenue raised by the State Government | | | | | | |
| I | • Tax revenue | 279.54 | 293.92 | 435.48 | 524.92 | 527.54 |
| | • Non-tax revenue | 1,137.76 | 1,044.57 | 806.96 | 794.49 | 698.08 |
| | TOTAL | 1,417.30 | 1,338.49 | 1,242.44 | 1,319.41 | 1,225.62 |
| | Percentage of increase over previous year | (-) 10.30 | (-) 5.56 | (-) 7.18 | (+) 6.20 | (-) 7.11 |
| Receipts from the Government of India | | | | | | |
| II | • State's share of net proceeds of divisible Union taxes | 524.99 | 611.65 | 698.48 | 762.62 | 809.33 |
| | • Grants-in-aid | 1,105.02 | 1,722.50 | 1,852.40 | 2,244.41 | 2,427.00 |
| | TOTAL | 1,630.01 | 2,334.15 | 2,550.88 | 3,007.03 | 3,236.33 |
| III | Total receipts of State Government (I + II) | 3,047.31 | 3,672.64 | 3,793.32 | 4,326.44 | 4,461.95 |
| IV | Percentage of I to III | 47 | 36 | 33 | 31 | 27 |

Note: Tax and Non-tax revenue during 2009-10 was ₹ 1,580.09 crore.

The above table indicates that during the year 2014-15, the revenue raised by the State Government (₹ 1,225.62 crore) was 27 per cent of the total revenue receipts. The balance 73 per cent of the receipts during 2014-15 was from Government of India. Non-tax revenue and total receipts of the State shown in the table above include gross receipts under State Lotteries.

4.1.2 The details of the tax revenue raised during the period from 2010-11 to 2014-15 are given in **Table-4.1.2**:

Table 4.1.2
Details of Tax Revenue raised

| | | (₹ in crore) | | | | | | | | | | | |
|---------|--|--------------|--------|---------|--------|---------|--------|---------|--------|---------|--------|--|--------|
| Sl. No. | Head of revenue | 2010-11 | | 2011-12 | | 2012-13 | | 2013-14 | | 2014-15 | | Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14 | |
| | | BE | Actual | BE | Actual | BE | Actual | BE | Actual | BE | Actual | BE | Actual |
| 1 | Sales Tax/VAT | 118.50 | 142.74 | 160.11 | 124.19 | 187.14 | 227.08 | 225.00 | 286.33 | 259.45 | 282.10 | 15 | (-) 1 |
| 2 | Taxes on Income and expenditure other than Corporation Tax | 1.92 | 4.94 | 2.01 | 4.86 | 5.62 | 6.73 | 7.01 | 8.68 | 8.01 | 7.93 | 14 | (-) 9 |
| 3 | State Excise | 55.50 | 70.64 | 67.44 | 96.26 | 95.00 | 111.12 | 109.00 | 120.64 | 120.93 | 131.36 | 11 | 9 |

| | | | | | | | | | | | | | |
|--------------|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------|----------|
| 4 | Stamps and Registration Fees | 3.13 | 5.70 | 3.26 | 8.27 | 7.47 | 5.35 | 7.91 | 6.46 | 7.70 | 6.77 | -3 | 5 |
| 5 | Taxes on Vehicles | 9.00 | 10.67 | 10.00 | 16.56 | 15.00 | 16.38 | 16.80 | 18.52 | 18.82 | 19.42 | 12 | 5 |
| 6 | Other Taxes and Duties on Commodities and Services | 19.39 | 37.52 | 22.47 | 39.17 | 37.63 | 63.16 | 53.40 | 80.90 | 75.60 | 73.81 | 42 | (-) 9 |
| 7 | Land Revenue | 3.82 | 7.33 | 3.82 | 4.61 | 5.48 | 5.66 | 6.56 | 3.39 | 6.89 | 6.15 | 5 | 81 |
| TOTAL | | 211.26 | 279.54 | 269.11 | 293.92 | 353.34 | 435.48 | 425.68 | 524.92 | 497.40 | 527.54 | 17 | 1 |

The respective departments reported the following reasons for variations:

Increase:

State Excise: The increase was due to revision of excise duty.

Land revenue: The increase was mainly due to more collection from tax and other receipts.

Decrease:

Sales Tax/ VAT: The decrease was due to shortfall in TDS.

In respect of other heads of revenue, no reason was furnished by concerned departments despite being requested (May 2015 and September 2015).

4.1.3 The details of the non-tax revenue raised during the period 2010-11 to 2014-15 are given in **Table-4.1.3**:

Table 4.1.3
Details of Non-Tax Revenue raised

| Sl. No. | Head of revenue | 2010-11 | | 2011-12 | | 2012-13 | | 2013-14 | | 2014-15 | | Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14 | | |
|--------------|------------------------------------|-----------------|-----------------|-----------------|-----------------|----------------|---------------|-----------------|---------------|----------------|---------------|--|---------------|--------|
| | | BE | Actual | BE | Actual | BE | Actual | BE | Actual | BE | Actual | BE | Actual | |
| 1 | Power | 190.00 | 87.86 | 150.00 | 79.70 | 100.05 | 82.90 | 110.10 | 98.93 | 121.10 | 113.56 | 10 | 15 | |
| 2 | Interest receipts | 25.57 | 28.14 | 13.91 | 29.39 | 21.15 | 46.00 | 28.85 | 67.02 | 31.05 | 66.44 | 8 | (-) 1 | |
| 3 | Police | 24.42 | 9.57 | 39.29 | 12.89 | 44.88 | 49.23 | 50.29 | 41.14 | 55.32 | 17.60 | 10 | (-) 57 | |
| 4 | Road Transport | 21.20 | 24.76 | 23.75 | 30.89 | 29.05 | 29.01 | 36.04 | 34.10 | 43.00 | 27.63 | 19 | (-) 19 | |
| 5 | Forestry and Wild Life | 11.00 | 12.25 | 11.00 | 12.53 | 13.48 | 12.28 | 15.35 | 14.27 | 15.35 | 11.45 | 0 | (-) 20 | |
| 6 | Other Administrative Services | 3.19 | 4.72 | 2.84 | 6.68 | 3.03 | 9.64 | 4.29 | 11.06 | 10.25 | 13.59 | 139 | 23 | |
| 7 | Public Works | 3.80 | 3.48 | 3.80 | 5.38 | 4.56 | 4.70 | 4.46 | 4.68 | 5.68 | 3.66 | 27 | (-) 22 | |
| 8 | Plantations | 2.70 | 2.90 | 2.80 | 2.59 | 3.20 | 3.98 | 3.50 | 3.62 | 5.00 | 2.31 | 43 | (-) 36 | |
| 9 | Water Supply and Sanitation | 2.82 | 2.61 | 3.49 | 2.90 | 3.40 | 2.74 | 3.87 | 3.17 | 3.91 | 3.25 | 1 | 3 | |
| 10 | Tourism | 3.11 | 3.00 | 5.00 | 1.84 | 5.00 | 2.13 | 5.60 | 2.65 | 2.80 | 2.64 | (-)50 | 0 | |
| 11 | Medical and Public Health | 0.56 | 0.72 | 0.56 | 1.27 | 1.27 | 1.50 | 1.27 | 2.19 | 2.50 | 1.97 | 97 | (-) 10 | |
| 12 | Other Rural Development Programmes | 2.79 | 1.17 | 2.32 | 1.25 | 2.32 | 1.46 | 1.50 | 2.13 | 1.50 | 1.65 | 0 | (-) 23 | |
| 13 | Stationery and Printing | 1.51 | 1.52 | 1.51 | 1.92 | 1.51 | 2.08 | 1.81 | 2.05 | 1.90 | 1.75 | 5 | (-) 15 | |
| 14 | Crop Husbandry | 0.42 | 0.51 | 0.42 | 0.46 | 0.07 | 0.71 | 0.53 | 1.45 | 0.91 | 0.56 | 72 | (-) 61 | |
| 15 | Education, Sports, Art and Culture | 1.21 | 1.73 | 1.40 | 1.35 | 1.40 | 1.37 | 1.69 | 1.38 | 1.34 | 1.22 | (-)21 | (-) 12 | |
| 16 | State Lotteries ¹ | Gross | 973.85 | 938.15 | 1,010.78 | 844.15 | 780.99 | 546.39 | 776.03 | 474.37 | 787.23 | 418.64 | 1 | (-) 12 |
| | | Net | (60.00) | (42.54) | (70.00) | (43.62) | (50.00) | (41.43) | (40.00) | (41.47) | (36.00) | (44.33) | (-)10 | 7 |
| 17 | Others | 6.41 | 14.67 | 8.67 | 9.38 | 10.14 | 10.84 | 9.35 | 30.28 | 10.08 | 10.16 | 8 | (-) 66 | |
| TOTAL | | 1,274.56 | 1,137.76 | 1,281.54 | 1,044.57 | 1,025.5 | 806.96 | 1,054.53 | 794.49 | 1098.92 | 698.08 | 4 | (-) 12 | |

Source: Finance Accounts and Estimates of Receipts.

The respective Departments reported the following reasons for variation:

¹ Figures in brackets represent net receipts.

Increase:

Other Administrative Services: The increase was due to reimbursement of Government of India's share of Election related expenditure for Lok Sabha and Vidhan Sabha Elections in April 2014.

Decrease:

Police: The decrease was due to delay in sanction of reimbursement for expenditure on Police Check-posts and Indian Reserve Battalion by Government of India and lesser number of renewal of gun licenses.

Education, Sports, Art and Culture: The decrease was due to waiver of fees upto College level and hiring of Mannan Bhawan (Hall for organising meetings, etc.) on lesser occasions.

Crop Husbandry: The decrease was due to reduction in lease rent of Bio-fertiliser unit at Mazitar and decrease in sale of Cymbidium orchid.

Other Rural Development Programme: The decrease was due to non-sanctioning of fresh work during 2014-15 resulting into lesser than anticipated sale of tender forms.

Public Works: The decrease was due to less use of Government machinery by the contractors, less sale proceeds from sale of tender documents, non-settlement of pending payment to the contractors and less sanction of new projects.

Medical and Public Health: The decrease was due to less collection of user charges, collection of less fees due to lesser number of tenders, less collection of fees and fines under Tobacco Act and reduction of Lab test charges.

State Lotteries: The decrease was due to closure of lottery market in big States.

Forestry and Wildlife: The decrease was due to free distribution of forest produce like timber, sand and stone as per Government policy and less realisation of revenue from royalties due to stalling in development of Hydel Power Projects.

Tourism: The shortfall in Actuals as compared to BE was due to non-payment of lease rent and low selling of tender forms.

In respect of other heads of revenue, no reason was furnished by concerned departments despite being requested (May 2015 and September 2015).

4.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2015 in respect of some Heads of Revenue as reported by the departments amounted to ₹ 5.65 crore of which ₹ 2.74 crore was outstanding for more than five years, as detailed in the **Table-4.2:**

Table 4.2
Arrears of Revenue

(₹ in crore)

| Sl. No. | Head of revenue | Total Amount outstanding as on 31 March 2015 | Amount outstanding for more than five years | Replies of Department |
|---------|-----------------------------|--|---|---|
| 1 | Public Works | 2.13 | 1.03 | No reply received from the Department. |
| 2 | Tourism | 0.98 | 0.98 | Department has issued reminder Legal Notice to pay the rent. |
| 3 | Animal Husbandry | 0.57 | 0.57 | No reply received from the Department. |
| 4 | Water Supply and Sanitation | 1.97 | 0.16 | Some of the old lines are damaged partially and unrepairable. Such cases with disturbed water supply remained without up-to-date payment. |
| | TOTAL | 5.65 | 2.74 | |

Source: Information received from departments.

It would be seen from the proceeding table that recovery of ₹ 2.74 crore was pending for more than five years and no sincere efforts were being made to recover them. The total arrears of revenue pending with the departmental authorities were ₹ 5.65 crore.

4.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Commercial Taxes Division (Finance, Revenue and Expenditure Department) in respect of Sales Tax (including VAT) was as given in the following table:

Table 4.3
Arrears in assessments

| Head of revenue | Opening balance | New cases due for assessment during 2014-15 | Total assessments due | Cases disposed of during 2014-15 | Balance at the end of the year | Percentage of disposal (col. 5 to 4) |
|-----------------|-----------------|---|-----------------------|----------------------------------|--------------------------------|--------------------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| VAT | 3214 | 458 | 3,672 | 18 | 3,654 | 0.49 |

As can be seen from the table, the performance regarding disposal of cases of CTD was unsatisfactory. The Department may thus take steps to increase the percentage of disposal of cases of assessment.

4.4 Evasion of tax detected by the Department

No Department reported any case of evasion of tax.

4.5 Pendency of Refund Cases

As per information received in respect of Commercial tax/VAT, there was refund of ₹ 5.78 lakh out of claim received during 2014-15 of the same amount.

4.6 Response of the departments/Government towards Audit

The Accountant General (Audit), Sikkim conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of the important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with the copies to the next higher authorities for prompt corrective actions. The heads of the Offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the Accountant General within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

IRs issued upto December 2014 disclosed that 267 paragraphs involving ₹ 561.78 crore relating to 95 IRs remained outstanding at the end of June 2015. The details alongwith the corresponding figures for the preceding two years are mentioned in the following table:

Table 4.6.1
Details of pending Inspection Reports

| | June 2013 | June 2014 | June 2015 |
|--|-----------|-----------|-----------|
| Number of outstanding IRs | 131 | 97 | 95 |
| Number of outstanding audit observations | 328 | 292 | 267 |
| Amount involved (₹ in crore) | 710.16 | 598.29 | 561.78 |

4.6.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2015 and the amounts involved are mentioned in the **Table-4.6.2**:

Table 4.6.2
Department-wise details of IRs

| Sl. No. | Name of Department | Nature of Receipts | No. of Outstanding IRs | No. of Outstanding Audit Observations | Money value involved (₹ in crore) |
|--------------|--|---|------------------------|---------------------------------------|-----------------------------------|
| 1 | Finance, Revenue and Expenditure (Commercial Taxes Division) | VAT/Taxes on Sales, Trade, etc. | 11 | 38 | 41.18 |
| 2 | Finance, Revenue and Expenditure (Income Tax Division) | Income Tax | 14 | 60 | 32.95 |
| 3 | Excise (Abkari) | State Excise | 10 | 28 | 29.63 |
| 4 | Land Revenue and Disaster Management | Land Revenue | 22 | 27 | 0.87 |
| 5 | Transport | Taxes on Motor Vehicles | 6 | 14 | 3.68 |
| 6 | Mines, Minerals and Geology | Non-ferrous Mining and Metallurgical Industries | 3 | 3 | 3.35 |
| 7 | Forest, Environment and Wildlife Management | Forestry and Wildlife | 5 | 12 | 0.15 |
| 8 | Finance, Revenue and Expenditure (Directorate of Sikkim State Lotteries) | Lottery | 2 | 5 | 24.10 |
| 9 | Energy and Power | Power | 11 | 48 | 415.60 |
| 10 | Urban Development and Housing | Urban Development | 11 | 32 | 10.27 |
| TOTAL | | | 95 | 267 | 561.78 |

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of the IRs for 6 IRs (issued during 2014-15) upto June 2015. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that heads of offices and heads of the Departments did not initiate adequate action to rectify the defects, omissions and irregularities pointed out by the Accountant General through IRs.

The Government may consider to have an effective system for prompt and appropriate response to audit observations.

4.6.2 Departmental Audit Committee Meetings

The Government set up audit committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. The details of the audit committee meetings held during the year 2014-15 and the paragraphs settled are mentioned in **Table-4.6.3**.

Table 4.6.3

Details of Departmental audit committee meetings

(₹ in crore)

| Sl. No. | Department | Number of meetings held | Number of IRs settled | Number of paragraphs settled | Amount |
|---------|---------------------------|-------------------------|-----------------------|------------------------------|--------|
| 1 | Commercial Taxes Division | 01 | 02 | 36 | 132.96 |

The overall progress of settlement of paragraphs needs to be improved in view of the huge pendency of the IRs and paragraphs.

4.6.3 Non-production of records to audit for scrutiny

The programme of local audit of Tax revenue/non- tax revenue offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit, to the departments to enable them to keep the relevant records ready for audit scrutiny.

Audit observed non-production of records like assessment files, returns, refunds, registers and other relevant records relating to 48 cases as mentioned below:

Table 4.6.4

Non-production of records

| Name of the Office/Department | Year of audit | Number of cases for which records were not produced | Tax amount |
|-------------------------------|---------------|---|------------|
| Commercial Taxes Division | 2013-14 | 48 | Not known |

4.6.4 Response of the departments to the draft audit paragraphs

The draft Audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the Accountant General to the Principal Secretaries/Secretaries of the concerned Department, drawing their attention to audit findings and requesting them to send their response within six weeks. The fact of non-receipt of replies from the Departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Five draft paragraphs proposed for inclusion in the Audit Report of the Comptroller and Auditor General of India for the year ended March 2015 were forwarded (May and July 2015) to the heads of the respective departments through demi-official letters. The heads of departments furnished replies in respect of all draft paragraphs.

4.6.5 Follow up on Audit Reports - summarised position

The Rules of Procedures of the Committee on Public Accounts of the Sikkim Legislative Assembly (internal working) laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report for consideration of the Committee. In spite of these provisions, the explanatory notes on the audit paragraphs of the Reports were being delayed inordinately. Twenty-three paragraphs (including Performance Audits) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Sikkim for the years ended 31 March 2010, 2011, 2012, 2013 and 2014 were placed before the State Legislative Assembly between March 2011 to March 2015. Action taken explanatory notes in respect of 14 paragraphs from four departments (Finance, Revenue and Expenditure, Excise, Transport and Labour Departments) had not been received for Audit Reports for the years ending 31 March 2010, 2011, 2012 and 2014.

During the year 2013-14, the PAC discussed Audit Report for the year 2008-09 and its recommendations were incorporated in their 96th Report (2014) and ATNs have been received by the PAC in respect of one performance review and two paragraphs discussed. Audit Report for the year 2009-10 was under discussion.

4.7 Analysis of the mechanism for dealing with issues raised by Audit

To analyse the system of addressing the issues highlighted in the IRs/Audit Reports by the departments/Government, the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last 10 years in respect of Energy and Power Department is evaluated and included in this Report.

The succeeding paragraphs 4.7.1 to 4.7.2 discuss the performance of the Energy and Power Department in dealing with the cases detected in course of local audit conducted during the last ten years and also the cases included in the Audit Reports for last ten years.

4.7.1 Position of Inspection Reports

The summarised position of IRs issued during the last ten years, paragraphs included in these Reports and their status as on 30 June 2015 are given in the following table:

Table 4.7.1
Position of Inspection Reports

(₹ in crore)

| Year | Opening balance | | | Addition during the year | | | Clearance during the year | | | Closing balance | | |
|---------|-----------------|-------------|-------------|--------------------------|-------------|-------------|---------------------------|-------------|-------------|-----------------|-------------|-------------|
| | IRs | Para-graphs | Money value | IRs | Para-graphs | Money value | IRs | Para-graphs | Money value | IRs | Para-graphs | Money value |
| 2005-06 | 7 | 13 | 106.28 | 1 | 4 | 1.17 | 0 | 0 | 0 | 8 | 17 | 107.45 |
| 2006-07 | 8 | 17 | 107.45 | 1 | 8 | 37.14 | 0 | 2 | 2.06 | 9 | 23 | 142.53 |
| 2007-08 | 9 | 23 | 142.53 | 1 | 10 | 80.18 | 1 | 1 | 1.63 | 9 | 32 | 221.08 |
| 2008-09 | 9 | 32 | 221.08 | 0 | 0 | 0 | 1 | 5 | 32.98 | 8 | 27 | 188.10 |
| 2009-10 | 8 | 27 | 188.10 | 0 | 0 | 0 | 0 | 2 | 1.65 | 8 | 25 | 186.45 |
| 2010-11 | 8 | 25 | 186.45 | 0 | 0 | 0 | 0 | 0 | 0 | 8 | 25 | 186.45 |
| 2011-12 | 8 | 25 | 186.45 | 1 | 9 | 214.91 | 0 | 3 | 66.82 | 9 | 31 | 334.54 |
| 2012-13 | 9 | 31 | 334.54 | 0 | 0 | 0 | 0 | 0 | 0 | 9 | 31 | 334.54 |
| 2013-14 | 9 | 31 | 334.54 | 0 | 0 | 0 | 0 | 0 | 0 | 9 | 31 | 334.54 |
| 2014-15 | 9 | 31 | 334.54 | 1 | 6 | 91.27 | 0 | 2 | 12.30 | 10 | 35 | 413.51 |

The Government did not arrange any Audit Committee Meeting between the Department and AG's office to settle the old paragraphs during 2014-15.

4.7.2 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years accepted by the Department and the amounts recovered there against are mentioned in the following table:

Table 4.7.2

| Year of Audit Report | No. of paragraphs included | Money value of the paragraphs (₹ in crore) | Number of paragraphs accepted | Money value of accepted paragraphs (₹ in crore) | Amount recovered during the year (₹ in crore) | Cumulative position of recovery of accepted cases (₹ in crore) |
|----------------------|----------------------------|--|-------------------------------|---|---|--|
| 2007-08 | 3 | 9.29 | 2 | 8.84 | 0.08 | 0.08 |

It is evident from the preceding table that the progress of recovery even in accepted cases was very slow during the entire period of last ten years. The recovery of accepted cases was to be pursued as arrears recoverable from the concerned parties. No mechanism for pursuance of the accepted cases had been put in place by the Department/Government. Further, the arrear cases including accepted audit observations were not available with the Energy and Power Department. In the absence of a suitable mechanism, the Department could not monitor the recovery of accepted cases.

The Department may take immediate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

4.8 Action taken on the recommendations accepted by the departments/ Government

The draft report on Performance Reviews conducted by the AG are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These reviews are also discussed in the exit conferences and the Department's/Government's views are included while finalising the reviews for the Audit Reports.

The following reviews on the Commercial Taxes Division (Finance, Revenue and Expenditure Department) had featured in the last 10 year's Audit Report. The details of recommendations and their status is given in the following table:

Table 4.8

| Year of AR | Name of the Review | No. of recommendations | Details of the recommendation | Status |
|------------|---|------------------------|--|---|
| 2008-09 | Performance Audit on transition from Sales tax to VAT | 8 | Implement computerisation of VAT system completely and effectively in all areas. | Computerisation of VAT implemented under MMPCT. |
| | | | Establish effective mechanism to review database at periodic interval and to prepare database of dubious/risky dealers. | Such mechanism has been established under the eSEVA ² . |
| | | | Establish effective mechanism to ensure submission of regular and timely returns by the dealers. | Returns have to be submitted on time, else the TIN of the dealer gets blocked by the system. Hence effective mechanism established. |
| | | | Establish effective mechanism for scrutiny of every returns submitted by the dealers, assessment of dealers and VAT audit of selected dealers. | Scrutiny of returns is mandatory and is being done before acceptance. |
| | | | Fix responsibility at various levels in the Department for strict compliance of codal provisions to avoid tax evasion by any dealer. | All the penal provisions are implemented before and after assessment. |
| | | | Ensure fixing the quantum of minimum penalty for each kind of offences and to continue VAT Fraud Task Force | Minimum penalty is provided in the SVAT Act/Rules. |
| | | | Strengthen internal control mechanism including internal audit. | Internal Audit section established with the Joint Commissioner/Audit as Head of the Section. |
| | | | Review and rectify various loopholes/deficiencies of SVAT Act and Rules. | SVAT Act/Rules have been amended to rectify various loopholes. |
| 2010-11 | Performance Audit on Utilisation of Declaration Forms in Inter State Trade and Commerce | 8 | Maintain data bank of dealer involved in Inter State Trade and Commerce. | Such provision exists in the eSEVA. |
| | | | Print Declaration form assessing its requirements taking into account pace of issue of declaration forms. | All the declaration forms are issued online. |
| | | | Maintain proper records of declaration forms printed, issued and closing stock. | Such records are maintained in the system since the Forms are issued online. |
| | | | Ensure issue of declaration forms to the dealers only after receipt of details of utilisation of declaration forms issued earlier. | Issue of declaration forms are done after verification and acceptance of the request. |
| | | | Issue declaration forms chronologically and not randomly to have a track of declaration forms. | Declaration forms are being issued online and records are available in the system. |
| | | | Install a system of verification of each and every declaration form submitted by the dealers with the database available in the TINXSYS website before allowing exemption/concession of tax. | Such system has been established and is under effective use. |
| | | | Install a system for picking up a sample of declaration forms and taking them up for further verification with the concerned States and also a system of uploading the details of utilisation of declaration forms in the TINXSYS website. | |
| | | | Ensure submission of CST returns by every dealer and assess all dealers involved in Inter State trade and commerce. | CST returns are to be filed online. Assessment of the dealers are on the basis of the assignment by the Commissioner. |

NB: Status as in the table is based on departmental replies.

² Commercial Taxes Division's tax administration system for online payment, e-return filing, waybill endorsement, etc.

4.9 Audit Planning

The unit offices under various departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter-alia* include critical issues in Government revenues and tax administration, i.e. budget speech, White Paper on State Finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during five years, etc.

During the year 2014-15, there were 19 auditable units, of which seven units were planned and audited which is 37 *per cent* of the total auditable units.

4.10 Results of audit

Test check of the records of seven units under Revenue departments (Urban Development and Housing; State Excise; Forest, Environment and Wildlife Management; Mines, Minerals and Geology; Directorate of Sikkim State Lotteries and Energy and Power) conducted during the year 2014-15 revealed irregularities involving revenue aggregating ₹ 61.48 crore in 31 cases. During the course of the year, the departments concerned accepted 20 cases which were pointed out in audit during 2014-15.

4.11 Coverage of this Report

This chapter contains six paragraphs (selected from the audit detections made during the local audit referred to above and one detected during previous year) involving financial effect of ₹ 16.82 crore and the findings of audit based on the theme 'Collection of Revenue from outsourced activities in Motor Vehicle Tax' involving financial implication of ₹ 4.13 crore. The departments have accepted audit observations involving ₹ 11.85 crore out of which ₹ 4.34 crore has been recovered. These are discussed in succeeding paragraphs.

TRANSPORT DEPARTMENT (MOTOR VEHICLES DIVISION)

4.12 Collection of Revenue from outsourced activities in Motor Vehicles Tax

Highlights

Selection and participation of two companies owned by the same person defeated very purpose of fairness and competitiveness in the tendering process for implementation of High Security Registration Plate.

(Paragraph 4.12.4.1)

Failure on the part of the Department to assess the reasonability of rates resulted into higher cost of HSRP affixation in the State as compared to other States and also led to extra financial burden of ₹ 2.65 crore to the vehicles owners of the State.

(Paragraph 4.12.4.2)

Failure to deposit the Government revenue directly into revenue head resulted into delay in deposit of revenue ranging from four days to 736 days. There was loss of revenue of ₹ 0.59 lakh due to non-provision of security deposit/performance guarantee in the agreement.

(Paragraphs 4.12.4.4 and 4.12.5.3)

In absence of competitive bidding for outsourcing of two Auto Emission Testing Centres at Gangtok and Jorethang and also due to non-linkage of share of Government revenue with the number of registered vehicles in the State resulted into loss of revenue to the tune of ₹ 1.11 crore.

(Paragraphs 4.12.5.4)

Only 7 to 9 per cent of the total number of registered vehicles in the State were issued PUC certificates by the designated agency during the entire period covered under audit resulting in environment pollution and health hazard to the general public.

(Paragraph 4.12.5.8)

Due to incorporation of defective clause in the contract agreement as well as in SMV Rules requiring the owners to undertake pollution control check every six months right from the date of registration even for new vehicles as against the provision of CMV Rules requiring pollution check only after expiry of 12 months from date of initial registration resulted into extra financial burden of ₹ 18.35 lakh on vehicle owners.

(Paragraph 4.12.5.9)

Sale for forms for availing various services under Motor Vehicles against the instruction of the Ministry of Surface Transport, GOI for issue of forms free of cost resulted into extra financial burden to the vehicle owners.

(Paragraph 4.12.6)

4.12.1 Introduction

The Transport Department, Government of Sikkim has two Divisions - (i) commercial Division named as Sikkim Nationalised Transport (SNT) which caters to the transportation needs of all Government departments and other agencies besides the public; and (ii) Motor Vehicles Division which is primarily responsible to enforce and implement the laws relating to Central Motor Vehicles (CMV) Act 1988, Central Motor Vehicle (CMV) Rules 1989, Sikkim Motor Vehicles (SMV) Rules 1991 and the Sikkim Motor Vehicles Taxation (SMVT) Act 1982.

The State Transport Authority (STA) constituted under Secretary, Transport Department as Chairman is empowered to exercise and discharge the powers and functions specified under the Motor Vehicles Act 1988.

Vehicles at a glance:

Total number of registered vehicles worked out by Audit from the Annual Reports³ of the Department are given below:

Table 4.12.1

| Year | 31.03.2010 | 31.03.2011 | 31.03.2012 | 31.03.2013 | 31.03.2014 | 31.03.2015 |
|--|------------|------------|------------|------------|------------|------------|
| Total vehicles registered by end of the year | 43,052 | 47,612 | 51,881 | 60,848 | 64,574 | 68,162 |

Sources: Annual Reports of the Department.

However, as per information subsequently provided by the Department, total number of registered vehicles as on 31 March 2015 totalled only 46,205.

The Department stated that the reason for difference in the number of vehicles was due to the fact that prior to the computerisation of registration of vehicles, registration of vehicles and compilation works were done manually and accurate numbers could not be arrived. However, after commencement of computerisation of registration process, the actual figure could be established as under:

Table 4.12.2

| Year | 31.03.2011 | 31.03.2012 | 31.03.2013 | 31.03.2014 | 31.03.2015 |
|--|------------|------------|------------|------------|------------|
| Total vehicles registered by end of the year | 23,135 | 27,695 | 31,964 | 40,931 | 46,205 |

It is seen from the above that there is significant difference in the number of vehicles furnished by the Department with those given in their Annual Reports. This indicates that the Department needs to reconcile both figures and update these in their computer system so as to show reliable and complete number of vehicles in the next Annual Report.

4.12.2 Outsourced Activities in Motor Vehicles Tax

Three activities under Motor Vehicles Tax had been outsourced by the State Government to different firms/agencies during the period March 2001 to October 2014 and revenue collected thereof was deposited under revenue head: 0041 - Taxes on Vehicle, as detailed below:

Table 4.12.3

| Sl. No. | Activities/revenue collection works | Name of firm engaged | Date from which the firm was engaged |
|---------|---|---|---|
| 1 | High Security Registration Plate (HSRP) | M/s Tonnjes Eastern Security Tech. Private Ltd. New Delhi | 02 February 2008 |
| 2 | Vehicle Emission Testing | M/s SiMTEI, Deorali, M/s Navigator and Ms. C.L. Bhutia | 15 October 2001, April 2011 and October 2014 respectively |
| 3 | Sale of Forms prescribed under MV Act and Rules | Mr. M.L. Sharma | 26 March 1990 |

³ The number of figures as on 31 March 2010 and 31 March 2011 shown in the Annual Reports were 43,052 and 47,612 respectively. New registration shown in subsequent years in Annual Reports were taken since total figures were not mentioned in said Reports. New registration figures for 2011-12, 2012-13 and 2013-14 were taken as 4,269, 8,967 and 3,726 respectively. The Department furnished in their reply new registration figures as 3,588 for 2014-15.

Major sources of revenue receipts for Motor Vehicles Tax were registration fee, token tax, transfer of ownership, recommendation fee, issue of national permit, issue of driving license, countersignature charges, route permits, fines for offences, etc. The year-wise collection of revenue under Motor Vehicles Tax *vis-à-vis* revenue collection from outsourced activities during the period covered under audit are:

Table 4.12.4

(₹ in lakh)

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | Total |
|--|-------------|--------------|--------------|--------------|-------------|--------------|
| Revenue on MV Tax | 1066.44 | 1656.27 | 1638.22 | 1852.17 | 1941.39 | 8154.49 |
| Revenue from Outsourcing | | | | | | |
| HSRP Affixation | 5.75 | 8.42 | 10.96 | 4.44 | 4.10 | 33.68 |
| Auto Emission Test | 2.30 | 2.30 | 2.53 | 2.53 | 2.53 | 12.19 |
| Sales of forms | 1.35 | 2.25 | 3.27 | 3.12 | 1.82 | 11.81 |
| Total of outsourcing | 9.40 | 12.97 | 16.76 | 10.09 | 8.45 | 57.68 |
| Percentage of revenue from outsourcing w.r.t. to total revenue | 0.88 | 0.78 | 1.02 | 0.54 | 0.44 | 0.71 |

Percentage of revenue collected through outsourced activities was insignificant ranging from 0.44 *per cent* to 1.02 *per cent* compared to total revenue collection under Motor Vehicle Tax during the entire period from 2010-11 to 2014-15.

This was due to the fact that royalty for HSRP affixation, revenues to be deposited from auto emission test and sale of forms were fixed at a very low rate.

4.12.3 Audit framework

Audit on “Collection of revenue from outsourced activities in Motor Vehicles Tax” was taken up with an Entry Conference with the Secretary, Transport Department on 22 July 2015 to assess transparency and competitiveness in selection process of outsourced agencies, adequacy of agreements with outsourced agencies to safeguard revenue interests of the State and adherence to terms and conditions of the agreement by outsourced agencies for effective and timely collection of revenue. Audit was conducted through test check of records in Transport Department (Motor Vehicles Division) at Gangtok and four Regional Transport Offices (RTO) located at Districts level during July-August 2015 covering the period April 2010 to March 2015. The audit findings were discussed in the Exit Conference held on 12 October 2015 and the replies received have been suitably incorporated. The audit findings were benchmarked against criteria stipulated in the bid documents, agreements, CMV Act 1988, CMV Rules 1989, SMV Act 1988, SMV Rules 1991, SMVT Act 1982 and State Financial Rules 1979.

Audit findings

4.12.4 Implementation of High Security Registration Plate

The High Security Registration Plate (HSRP) Scheme was implemented in compliance to the Notification issued by the Ministry of Shipping, Road Transport and Highways (MORTH) and Rule 50 of the Central Motor Vehicle Rules 1989 and the directions issued by the Hon’ble Supreme Court. The State Government issued a notification for making

HSRP effective from 1 July 2008 in Sikkim. However, actual implementation started from 2 February 2009.

The contract for implementation of HSRP was entrusted to a Delhi based firm M/s Tonnjes Eastern Security Technologies (EST) Pvt. Ltd. on 'Build, Own and Operate' (BOO) basis through an agreement signed between the Government and the firm on 2 April 2008 for five years. After completion of this agreement period, the Department continued to give periodical extensions to the same firm. According to current extension, the period of extension was up to 31 March 2016.

While auditing the available records relating to implementation of HSRP scheme, following observations came to light.

4.12.4.1 Irregularities in tendering process

The State Government published Notice Inviting Tender (NIT) in April 2007 for selection of firm in order to implement the scheme and the following five bidders responded in June 2007.

Table 4.12.5

| Sl. No. | Name of Company |
|---------|--|
| 1 | M/s Tonnjes Eastern Security Tech Pvt. Ltd., New Delhi |
| 2 | M/s Hind Industries Ltd., New Delhi |
| 3 | M/s Shimnit Utsch India Pvt. Ltd. Mumbai |
| 4 | M/s Promuk Hoffman International Ltd., Secunderabad |
| 5 | M/s Real Mazon India Ltd., New Delhi |

As per records, only two bidders, viz. (i) Tonnjes EST Pvt. Ltd, New Delhi, and (ii) M/s Shimnit Utsch India Pvt. Ltd, conformed to bid requirements in pre-qualification bids. However, the statement of Association of Registration Plates Manufacturers of India indicated that three below mentioned companies have the same owner Shri Nitin Shah.

- i. M/s Shimnit Utsch India Limited
- ii. M/s Tonnjes Eastern Security Limited
- iii. M/s Real Mazon India Pvt. Limited

Selection and participation of two companies owned by the same person (Shri Nitin Shah) defeated the very purpose of fairness and competitiveness in entire tendering process.

The Department contended (October 2015) that no deviation was done as the firm was awarded contract only after qualifying in all the rounds of evaluation. The Department further added that Law did not prohibit anyone to own more than one company. However, the fact remained that out of five firms who participated in the bid, three companies were owned by one and the same person of which two firms incidentally qualified to the final round. This vitiated the practice of fair competition.

4.12.4.2 Excess charging of HSRP affixation and loss of potential Government revenue

While finalising tendering process, the Department was required to assess reasonability of rates offered by the bidders. Audit collected information regarding rate of HSRP affixation in different States including North Eastern States as shown below:

Table 4.12.6

| Sl. No. | Name of State | Rate of affixing HSRP for four wheelers (figures in ₹ excluding tax) | Rate of affixing HSRP for two wheelers (figures in ₹ excluding tax) | Name of firm awarded contract for affixing HSRP |
|---------|-------------------|--|---|---|
| 1 | Himachal Pradesh | 315 | 105 | M/s Link Utsav Ventures Pvt. Ltd., New Delhi |
| 2 | Goa | 1,200 | 650 | M/s Shimnit Utsch India Pvt. Ltd., Mumbai |
| 3 | New Delhi | 280 | 180 | M/s Rosemerta Technologies |
| 4 | Haryana | 364 | 140 | M/s Utsav Safety System Pvt. Ltd. |
| 5 | Mizoram | 945 | 669 | M/s Shimnit Utsch India Ltd., Mumbai |
| 6 | Manipur | 735 | 597 | M/s Shimnit Utsch India Pvt. Ltd., Mumbai |
| 7 | Nagaland | 1,298 | 599 | M/s ShimnitUtsch India Pvt. Ltd., Mumbai |
| 8 | Arunachal Pradesh | 1,568 | 660 | M/s Shimnit Utsch India Pvt. Ltd., Mumbai |
| 9 | Sikkim | 1,816 | 735 | M/s Tonnjes EST Pvt Limited |
| 10 | Sikkim | 645 | 326 | Rate quoted by M/s Rosemerta during 2014 bid. |

It was seen from above that cost of HSRP affixation was exorbitantly high compared to other States. Even comparison among the North Eastern States showed that Sikkim was having highest rate for HSRP cost. Rates of HSRP varied from ₹ 280 to ₹ 1816 in case of four-wheelers and ₹ 105 to ₹ 735 in case of two-wheelers, the highest being in case of Sikkim. The rates quoted by M/s Rosemerta Technologies Ltd. (₹ 645 for four-wheelers and ₹ 326 for two-wheelers) on subsequent tendering process during July 2014 was reasonable as compared to various States mentioned above. This shows that while finalising tendering process, the Department did not assess reasonability of rates offered by the bidders. Even by taking the rate of Goa, one of the highest rates amongst other eight States as above, the rate in Sikkim was higher by ₹ 616 and ₹ 85 for four-wheelers and two wheelers respectively. This exorbitant high rates in cost of HSRP added unwarranted burden on vehicle owners by ₹ 2.65 crore⁴ during the period 2009-2015 and consequential gain to M/s Tonnjes EST Pvt. Ltd.

The Department in its reply stated (October 2015) that the firm had not been charging excess HSRP affixation charges as it had been awarded the work after financial bid. Due to low vehicle population, hilly terrain, remote locality, unreliable road connectivity, cost of transportation, manpower, machinery, materials were expected to be higher compared to other States. The reply is not acceptable as the HSRP affixation rates for four-wheelers and two-wheelers in other hilly and far flung states like Himachal Pradesh (₹ 315: ₹ 105), Manipur (₹ 735: ₹ 597) and Mizoram (₹ 945: ₹ 669) were much lower than that of Sikkim. Thus, low vehicle population could not be justified for exorbitant rates of HSRP affixation.

4.12.4.3 Unprofitable rate of royalty

The main purpose of publishing NIT was to maximise fairness and competitiveness without compromising quality of the work. This implied that it should be ensured that Government revenue should be safeguarded along with provision of service to general public at minimum cost.

⁴ Four-wheelers - $42,575 \times ₹ 616 = ₹ 2,62,26,200$; Two-wheelers - $3,630 \times ₹ 85 = ₹ 3,08,550$.

Audit observed that while tendering for implementation of HSRP during 2008, the Department attached the condition in the Bid documents itself vide clause 4.3.1, “the successful bidder shall pay on monthly basis to the State Government, a sum equivalent to 5 per cent of the amount (excluding local taxes) collected on sales of HSRP from the vehicles owners as Royalty”. It implies that whatever be the cost of HSRP plate affixation, the bidder would pay only 5 per cent of it as Royalty. Thus, instead of quoting the rate of royalty to be paid by the bidders on competitive basis along with the rate of HSRP, fixing the rate of 5 per cent towards Government revenue defeated the idea of safeguarding the revenue interests of the State. Thus due to rigidity on rate of royalty, the Department earned a royalty of ₹ 36.78 lakh⁵ (5 per cent) only during the period 2009-15 which fared minimal compared with the total transaction of the firm amounting to ₹ 8.34 crore during the same period.

The Department stated (October 2015) that tendering was done in fair and competitive manner and the royalty was calculated and released as per the conditions laid down under the bid documents. The Department, however, did not address the issue of fixing the rate of royalty instead of bidding by the firms which failed to safeguard the revenue interest of the Government.

4.12.4.4 Delay in submission of royalty and loss of interest

As per Clause 16 of the agreement, the M/s Tonnjes EST Pvt. Ltd. shall pay on monthly basis to the State Government a sum equivalent to 5 per cent of the amount (excluding local taxes) collected on sales of HSRP as royalty. The royalty shall be paid directly in the revenue head of Transport Department on or before 10th of the following month. Any delay in the payment of royalty by the firm will attract an overdue interest for every month of delay or part thereof. Such overdue interest will be compounded on a monthly basis and the applicable interest will be the Prime Lending Rate (PLR) of State Bank of India prevailing at the time plus 2 per cent.

Audit of records of the Department and corresponding deposit details at State Bank of Sikkim, Gangtok Branch revealed the following:

- (a) Instead of depositing royalty directly into the revenue head, the firm forwarded royalty in form of cheques in name of Secretary, Motor Vehicles Department.
- (b) Out of 73 cases of deposit, there were delays in all cases ranging between 4 days to 736 days from the stipulated date, i.e. 10th of the next month attracting a penal interest of ₹ 0.89 lakh for delays as detailed below:

Table 4.12.7

| Delays in deposit | No of cases | Penalty (in ₹) |
|-------------------|-------------|----------------|
| Upto 50 days | 52 | 27,786 |
| 50 to 100 days | 12 | 19,479 |
| 101 to 500 days | 8 | 29,131 |
| Above 500 days | 1 | 12,851 |
| | | 89,247 |

⁵ Total cost on affixation of HSRP w.e.f. 2009-10 to 2014-15: ₹ 8,34,18,640. (Net amount: ₹ 7,35,60,359+Taxes: ₹ 98,58,281). Royalty @ 5 per cent realised on net amount = ₹ 36,78,018).

Penal interest was not realised from the firm till the date of audit (August 2015).

In reply, the Department stated (October 2015) that there was no delay in submission of royalty by the firm and loss of interest thereof due to the fact that the head office of the firm was located at New Delhi and there was no RTGS facility to deposit the Government revenue. The head office of the firm forwarded the royalty in the form of cheque in favour of Secretary, Transport Department through time taking postal services. The cheques were subsequently required to be deposited into Government Account through challans by the Department.

The contention of the Department is not acceptable as the head office of the firm could easily transfer royalty money electronically, without any time lag, to its branch office in Sikkim. Further, as per clause 16(a) of the agreement, the monthly royalty could be paid by the branch office of the firm directly in the revenue head of the Department within 10th day of every next month. Moreover, it was not the responsibility of the Department to deposit the royalty money into the Government Account.

4.12.4.5 Liquidated damage not recovered

As per the agreement entered with the firm on 2 April 2008, the contract was for a period of five years from the date of commencement of the scheme which would be 90 (ninety) days from the date of signing of the contract agreement. As per clause 27 of the agreement, for timely fixation of HSRP on the newly registered vehicles in the State, the contractor was required to install necessary infrastructure at all location of Registering Authorities in the State within 90 days from the date of signing of the agreement. Further, the agreement also stipulated that if necessary infrastructure⁶ were not installed or made operational at any of the locations of registering authorities in the State on stipulated time as referred above, it would be considered as delay in commencement of contract and would result in recovery of liquidated damage at the rate of ₹ 0.25 lakh for each day of delay subject to maximum of ₹ 25 lakh without prejudice to other remedies under the contract.

Audit scrutiny revealed the following:

- The firm started the work with effect from March 2009 at Gangtok, East District after delay of eight months.
- The firm established office and necessary infrastructure at one of the four locations of Registering Authorities at East District (Gangtok) only. In the remaining RTO Offices, the firm only deployed a person for collecting cost and fixation of HSRP supplied from Gangtok Centre.

This showed violation of agreement as the Department not only failed to ensure compliance with terms and conditions but also failed to initiate action for recovery of liquidated damage of ₹ 25 lakh for delayed implementation of the scheme.

⁶ *Equipment: 1) Embossing Machine; 2) Hot Stamping Machine; 3) Third Registration plate printer. Personnel: 1) Embossing Station In-charge; 2) Embossing Technician; 3) Information Technology; 4) Network In-charge; 5) Fitment Engineer.*

The Department stated (October 2015) that necessary infrastructure were installed in other districts too and there was no delay in implementation of scheme. However, the fact remained that necessary infrastructure were not installed in the remaining three RTO Offices (except RTO East Office at Gangtok) as of November 2015 which attracted recovery of liquidated damage as per the provision.

4.12.4.6 Delayed tendering and undue extension

Existing agreement for implementation of HSRP expired on 1 February 2014. The Department, however, extended the contract of M/s Tonnjes EST Pvt. Ltd. (subsequently renamed as M/s Test Security License Plates Pvt. Ltd.) till 31 August 2014 on the same terms and conditions as per earlier contract and at the same price. The Department floated fresh tender for the implementation of HSRP on 20 June 2014 after delay of four months vide e-tendering against which only one bid was received from a Delhi based firm M/s Rosemerita Technologies Ltd. (RTL), New Delhi. Due to single bidder, Tender Selection Committee decided for retendering. Retendering was done on 25 July 2014 through e-tendering as well as publishing of NIT in Economic Times, New Delhi and Kolkata editions and local newspaper - Sikkim Herald. Again the same firm M/s Rosemerita Technologies Ltd. was the only bidder. The Tender Selection Committee decided to go ahead and opened (12 August 2014) the bid documents. The firm quoted the following rates:

Table 4.12.8

| Sl.No. | Vehicle category | Rate quoted per pair | Remarks |
|--------|------------------|----------------------|---|
| 1 | Four-wheeler | ₹ 644.62 | Local cess (1 per cent) extra on base price |
| 2 | Two-wheeler | ₹ 326.24 | Local cess (1 per cent) extra on base price |

The Department meanwhile received (August 2014) alleged information that M/s Rosemerita Technologies Ltd. was member of a consortium which violated certain conditions of contract while implementing affixation of HSRP in Delhi and was issued show cause notice by the Delhi Government for supplying HSRP plate from a factory which did not possess Conformity of Production (COP) certificate. The Department kept the tendering process in abeyance and did not seek any clarification from M/s Rosemerita Technologies Ltd. In April 2015, the Department unilaterally sent letter of non-acceptance of the contract to M/s Rosemerita Technologies Ltd. The contract was further extended with effect from September 2014 to 31 March 2016 at reduced rates (as compared to the earlier rates at which M/s Tonnjes EST Pvt. Ltd. was operating) as given in the following table:

Table 4.12.9

| Sl. No. | Vehicle category | Rate | Remarks |
|---------|------------------|---------|-------------------|
| 1 | Four-wheeler | ₹ 1,458 | Local taxes extra |
| 2 | Two-wheeler | ₹ 599 | Local taxes extra |

Thus, it was obvious from above that the Department failed to initiate timely action for retendering. The tendering process was kept in abeyance for inordinately long period of

nine months⁷ based on alleged information without documentary proof for which clarification from the bidder was not sought. On the other hand, HSRP services continued from the existing firm on *ad-hoc* basis by extending the contract in a piecemeal manner. Further, it was observed that the existing firm M/s Tonnjes EST Pvt. Ltd. did not participate in fresh tender but continued to get extension. Thus, due to delayed tendering and keeping the tender process in abeyance without seeking clarification from bidder, the Department was forced to extend the contract to the existing firm without the bidding process and deprived the vehicle owners from getting services on competitive rates.

The Department replied (October 2015) that delay occurred due to enforcement of model code of conduct for Assembly Election in Sikkim. Further, due to receipt of report of enquiry committee set up by Delhi Government for alleged involvement of the bidder firm which was also under litigation in Supreme Court, the Department, after seeking legal advice from Learned Advocate General, kept the tendering process in abeyance and later issued non-acceptance letter of the contract to the firm. The Department further stated that under the above conditions, it had to grant the extension to the existing firm for continuation of the services. The reply of the Department is, however, not acceptable as the old contract came to end on 2 February 2014 and the Department could have commenced the tendering process much ahead of expiry of the old contract and completed the tendering process before the enforcement of the model code of conduct (5 March 2014). During the intervening period, the Department did not initiate the tendering process. Further, the Department failed to obtain the clarification from the bidder and issued non-acceptance letter unilaterally.

4.12.5 Smoke Emission Testing

Under Rule 115(7) of the CMV Rules 1989, every vehicle shall carry a valid Pollution Under Control (PUC) certificate after expiry of one year from the date of first registration. The PUC is valid for a period of six months for vehicles which are already on road. The Transport Department outsourced different agencies to run and operate the “Auto Emission Testing Centres” (AETCs) for an initial period ranging from three to five years by signing agreements with concerned agencies. Details are as under:

Table 4.12.10

| Year | Places | Firms | Period of agreement |
|------|---------------------------------|-------------------------|--|
| 2001 | Gangtok and Jorethang | M/s SiMTEI | Ranging from three years to five years |
| 2011 | Mobile Vehicular Testing Unit | M/s Navigator | Three years w.e.f. April 2011 |
| 2014 | Rangpo, Geyzing, Mangan, Namchi | M/s SiMTEI | Five years w.e.f. October 2014 |
| 2014 | Ranipool | Ms. Cheoki Lhamu Bhutia | Five years w.e.f. October 2014 |

Audit of records relating to outsourcing revealed the following:

4.12.5.1 Award of work without competitive bidding

It was observed that license was granted (October 2001) to a private firm - M/s Sikkim Motor Training and Engineering Institute (SiMTEI), Gangtok to run the AETCs at

⁷ NIT published initially - 20.06.2014; NIT republished - 27.07.2014; Opening of bid - 12.08.2014; letter of non-acceptance sent - April 2015.

Gangtok and Jorethang without competitive bidding. For the services rendered, the firm collected fees at prescribed rate of ₹ 80 per certificate from two/three wheelers and ₹ 100 per certificate from four wheelers.

The deed of agreement was signed with the Government on 28 September 2001 to be effective from 15 October 2001 for the initial period of five years and subsequently renewed (three occasions in between October 2006 to October 2012) to run the AETCs at Gangtok and Jorethang, valid till October 2017. Initially annual revenue inflow from outsourcing was fixed at ₹ 0.90 lakh which was subsequently revised thrice to ₹ 1.80 lakh, ₹ 2.30 lakh and ₹ 2.53 lakh.

In reply, the Department stated (October 2015) that during the year 2000-01, the implementation of AETC was at very initial stage in the State. In order to run the AETCs required technical expertise and during that period, no other firms were readily available. Since the Department had to implement the same immediately, it had no option but to grant permission to M/s SiMTEI to run the AETCs at Gangtok and Jorethang. Moreover, the proprietor of the firm, an unemployed educated local youth of Sikkim, was given opportunity under the employment generation policy in line with the Government.

The reply of the Department was not tenable considering the fact that during the entire period of 14 years from 2000-01 to 2014-15, the Department had never opted for floating the tenders to safeguard revenue interest of the Government. Instead, it continued to renew the agreement with the firm ranging from three to five years as per request of the firm while there were number of parties including M/s Sikkim Motors, Tadong interested in opening the AETCs in the State during this intervening period.

4.12.5.2 Agreement not safeguarding Government interest

Audit scrutiny of agreement signed with the firm and subsequent renewal of contract agreements noticed that though the annual revenue to be paid by the firm was increased thrice from ₹ 0.90 lakh to ₹ 2.53 lakh over the period of 11 years (2001-02 to 2011-12), the Department failed to link the annual revenue with increase in number of vehicles over the years, i.e. 43,052 in 2009-10 to 68,162 in 2014-15 while fixing the annual revenue to be paid by the firm. Failure to establish the linkage between annual revenue inflow to increasing vehicles compromised revenue interests of the State. Besides, conditions like performance security/security deposit, penalty/interest clause in case of delay or failure on the part of the firm for non-payment/delay in payment of Government revenue, etc. were lacking in the agreement. Similar lacunae in agreement were also noticed with the other outsourcing agencies (M/s Navigator and Ms. C.L. Bhutia) for running the Mobile Vehicular Testing Unit and AETC. Further, long contract period and renewal of agreement ranging from three to five years also debarred the Department from chances of enhancement of Government revenue each year.

4.12.5.3 Loss of Government revenue

With a view to facilitating easy access to the vehicle owners for auto emission test, the Department awarded (April 2011) work of operating Mobile Vehicular Test Unit (MVTU) to M/s Navigator for a period of three years. The firm was to run MVTU on

rotation basis at interval of every 15 days in each location at capital, districts, sub-divisions and major vehicular junctions of the State and issue a PUC certificate after test. For the services rendered, the firm collected the fees from the vehicle owner @ ₹ 100 per certificate for all types of light, medium and heavy motor vehicle and ₹ 80 from all types of two wheelers.

As per clause 21 of agreement, the firm shall deposit Government revenue on quarterly basis @ 33 per cent of ₹ 80 for each two wheelers tested and @ 27 per cent of ₹ 100 for each Light Motor Vehicle (LMV)/Medium Motor Vehicle (MMV)/Heavy Motor Vehicle (HMV) tested. The firm operated MVTU till 20 July 2013, however, neither the firm deposited revenue valuing ₹ 0.59 lakh⁸ nor was the Department in a position to recover the same due to absence of any security deposit/performance guarantee. The Department terminated the contract with the firm with effect from 21 July 2013 due to breach of clause of agreement. Legal notice to the firm to deposit the revenue had been issued, however, the revenue had not been deposited by the firm (September 2015).

While accepting the audit observation, the Department stated (October 2015) that the contract agreement had been terminated and legal notice sent to the firm to deposit the Government revenue immediately. Since the firm had not responded, the Department proposes to forward the matter to the Arbitrator and outcome of the same would be intimated to the Audit. As of November 2015, no further development had taken place.

4.12.5.4 Low fixation of revenue

The firm, i.e. M/s SiMTEI had been collecting ₹ 80 for two wheelers and ₹ 100 for four wheelers for conducting emission test and issue PUC certificates thereof from all vehicle owners. In lieu of contract granted to the firm, the Department set the yearly revenue to be deposited into Government account by the firm for two AETCs at Gangtok and Jorethang @ ₹ 2.30 lakh per year which was enhanced to ₹ 2.53 lakh per year from October 2012. Basis for setting up of this target of annual revenue to be deposited by the firm was not available with the Department.

Considering the number of registered vehicles in the State (47,612 in 2010-11 and 68,162 in 2014-15) and validity of PUC certificate, yearly revenue target fixed by the Department was far below than the earnings of the firm as analysed below:

Table 4.12.11

| Year | Number of registered vehicles under P, G, T and E series in the State | Total earning taking the rate of ₹ 80 per test per vehicle (required to undergo 2 tests per year) (in ₹) |
|--------------|---|--|
| 2010-11 | 25,071 | ₹ 40,11,360 |
| 2011-12 | 28,120 | ₹ 44,99,200 |
| 2012-13 | 34,079 | ₹ 54,52,640 |
| 2013-14 | 37,073 | ₹ 59,31,680 |
| 2014-15 | 39,396 | ₹ 63,03,360 |
| TOTAL | | ₹ 2,61,98,240 |

⁸ PUC certificates issued by the firm, i.e. 2,169 nos. x ₹ 100 = ₹ 2,16,900 x 27% = ₹ 58,563.

From the table above, yearly earning ranged from ₹ 40.11 lakh to ₹ 63.03 lakh aggregating ₹ 2.62 crore taking the total registered vehicles under P (Private), G (Government), T (Local taxi) and E (Tractor and Trailors) series as these vehicles mostly ply within the State and hence, there were remote chances that these series of vehicles undergo emission test outside the State. Thus, considering the formulae adopted for fixation of offset price⁹ by the Department while awarding contract for running the AETCs for other places, viz. Rangpo, Namchi, Gyalshing and Mangan to the same firm (M/s SiMTEI) in October 2014, total potential Government revenue worked out to ₹ 1.23 crore¹⁰. Thus, failure of the Department to link assessment of revenue with number of vehicles led to potential loss of revenue amounting to ₹ 1.11 crore (₹ 1.23 crore - ₹ 12.19 lakh¹¹) during the period from 2010-11 to 2014-15.

The Department stated (October 2015) that all vehicles registered in Sikkim need not carry out smoke test in the State only. The vehicle owners have option to undergo smoke test as per their convenience and MVD could not mandate vehicle owners to carry out smoke testing only in Sikkim. Hence, comparison with the increase of vehicles to revenue of smoke testing was not relevant. As such, there was no loss of revenue as the AETCs were established to facilitate vehicle owners/drivers for auto emission test.

Reply of the Department is not tenable as earning of the firm on account of issue of PUC certificates have been calculated taking only the total number of registered vehicles under P, G, T and E series which have the possibility to ply within the State only.

4.12.5.5 Delay in selection of outsourced agencies and operationalisation of AETCs led to loss of revenue

Audit observed that while the contract for running AETCs at Deorali and Jorethang was in operation (till October 2017) with M/s SiMTEI, Department invited 'Expression of Interest' (EOI) from interested parties for running of AETCs at six places, i.e. Ranipool, Rangpo, Gyalshing, Mangan, Namchi and Soreng. In response to EOI only two agencies submitted their willingness to operate the centres in the following five places as detailed below:

Table 4.12.12

| Sl.No. | Individual/Firm | Places |
|--------|--------------------------|-----------------------------------|
| 1 | Ms. Lendup Cheoki Bhutia | Ranipool |
| 2 | M/s SiMTEI | Rangpo, Gyalshing, Mangan, Namchi |

On receipt of EOI from the parties, the Technical Committee worked out the offset price for five years on the basis of estimated vehicles in the concerned places with yearly addition of vehicles at 10 per cent as under:

⁹ Minimum revenue fixed by Department to be deposited by successful bidder after conclusion of agreement.

¹⁰ Net earnings = ₹ 2,61,98,240 (total earnings) - ₹ 15,34,512 (recurring and non-recurring expenditure for five years) Offset price = ₹ 2,46,63,728x50 per cent of total earning = ₹ 1,23,31,864.

¹¹ Total revenue paid by the firm for 2010-11 to 2014-15 (2010-11 and 2011-12 @ ₹ 2.30 lakh per year and 2012-13 to 2014-15 @ ₹ 2.53 lakh per year).

Table 4.12.13

| Sl. No. | Place | Present estimated number of vehicle | Offset price for 5 years |
|---------|-----------|-------------------------------------|--------------------------|
| 1 | Rangpo | 3,000 | ₹ 10.65 lakh |
| 2 | Ranipool | 2,000 | ₹ 4.55 lakh |
| 3 | Gyalshing | 2,000 | ₹ 4.55 lakh |
| 4 | Namchi | 2,500 | ₹ 7.60 lakh |
| 5 | Mangan | 1,500 | ₹ 1.50 lakh |
| | | 11,000 | ₹ 28.85 lakh |

Despite Singtam being one of the important place with large vehicular traffic, i.e. entry point for vehicles for all other districts (South, West and North) and availability of interested parties, the Department had not included Singtam while inviting EOI. Reason for non-inclusion of Singtam was not available in records.

The offset price worked out by the Committee was approved by the Government. While both parties agreed the terms and conditions for operation of AETCs in March 2014, M/s SiMTEI requested one month time to start AETCs. The matter remained pending due to announcement of model code of conduct for Assembly and Parliamentary Election in April-May 2014. Finally, deed of agreement with the agencies was signed on 2 August 2014 which was effective from 1 October 2014 for five years, i.e. till 30 September 2019. Though AETCs were to be operationalised on 01 October 2014 as per clause 5 of the agreement, none of AETCs were operationalised till 31 March 2015. It was seen that the Department had not safeguarded the Government revenue by incorporating the interest and penalty clause in the agreement in case of delay in commencement of operation, etc. by the outsourced firms. Thus, there was a loss of Government revenue of ₹ 2.13 lakh¹² due to delay in commencement of AETCs by the agencies beyond the agreement date.

Further, it was observed that M/s SiMTEI expressed its unwillingness to operationalise the AETC at Namchi as the volume of vehicles in Namchi was below the projected number. This was clear violation of terms of the agreement by the firm but no action was taken by the Department against the firm. This resulted into loss of revenue amounting to ₹ 7.60 lakh to the Government. In such event, earnest money deposit of the bidder should have been forfeited. However, in absence of suitable clause for forfeiture of earnest money deposit, in case of default, the Department was not in a position to forfeit the same resulting in loss of revenue.

In reply, the Department stated (October 2015) that delay in operation of AETCs was due to requirement of specific machines which would be installed only after conclusion of agreement to avoid any eventual loss to the firm in the event of cancellation of agreement. Reply of the Department was not acceptable as the offer of acceptance for the work along with terms and conditions issued in March 2014 and agreed by both the firms in March 2014 itself were not abided till March 2015.

4.12.5.6 Short deposit and delay in deposit of Government revenue

As per agreement signed, M/s SiMTEI was required to submit Government revenue @ ₹ 2.30 lakh per year w.e.f October 2009 to October 2012 and ₹ 2.53 lakh with effect from

¹² Offset price for four AETCs (Rangpo, Ranipool, Gyalshing and Mangan) for five years = ₹21.25 lakh. Thus, revenue to be paid for 6 months' delay = ₹35,417 x 6 = ₹2,12,502.

October 2012 to October 2017 in quarterly instalments. Scrutiny of Challans in support of payments of yearly revenue during the period from 2010-11 to 2014-15 revealed that there was short deposit of ₹ 0.50 lakh by M/s SiMTEI. Further, the firm was required to deposit the revenue in quarterly instalments as per the terms and conditions of the agreement, the firm deposited the revenue in number of instalments ranging from 13 to 26 instalments in a year. Thus not only there was short deposit of Government revenue but payment in instalments also caused delay in deposit of revenue. The Department had not taken any action against the firm in violating the clause of agreement.

The Department while accepting the observation stated (October 2015) that the firm had been directed to deposit the fixed revenue towards operation of AETCs on quarterly instalments as per agreement.

4.12.5.7 Records not maintained as per Agreement

As per clause 10 and 20 of the agreement, the outsourcing agencies were required to maintain certain records and furnish reports to the Department containing date of testing, registration number of vehicle and smoke density level after check. Further, as per clause 20 of the agreement, the firm was required to maintain a “Register of Vehicle Tested” in the proforma given below:

| Registration No. of vehicle | Class of vehicle | Date and time reported for testing | Testing Report | Serial Number of Certificate | Fees realised | Other particulars, if any |
|-----------------------------|------------------|------------------------------------|----------------|------------------------------|---------------|---------------------------|
| | | | | | | |

However, no such records were maintained and furnished by the firm during the period covered under audit. The Department also failed to ensure compliance to the above provisions.

The Department stated (October 2015) that the firm was adhering to all the terms and conditions of the agreement. Registers were being maintained by the firm which would be produced to Audit. The contention of the Department is not acceptable as the Department failed to produce the monthly reports furnished by the firm (November 2015).

4.12.5.8 Vehicles plying without PUC certificates

As per information furnished by the firm, the year-wise total number of vehicles required to undergo auto emission test and the number of PUC certificates issued by M/s SiMTEI during the period covered under audit from two AETCs (Gangtok and Jorethang) showed huge discrepancy as compared to total registered vehicles available in the State as under:

Table 4.12.14

| Year | As on 31.03.2011 | As on 31.03.2012 | As on 31.03.2013 | As on 31.03.2014 | As on 31.03.2015 |
|---|------------------|------------------|------------------|------------------|------------------|
| No. of total registered vehicles | 47,612 | 51,881 | 60,848 | 64,574 | 68,162 |
| PUC to be issued as above (twice in a year) | 95,224 | 1,03,762 | 1,21,696 | 1,29,148 | 1,36,324 |
| PUC certificate issued by firm | 9,008 | 9,084 | 8,619 | 9,692 | 9,846 |
| Vehicles running without PUC (percentage in brackets) | 43,108 (91) | 47,339 (91) | 56,539 (93) | 59,728 (92) | 63,239 (93) |
| Percentage of vehicles whose emission was tested | 9 | 9 | 7 | 8 | 7 |

It is clear from the above table that if figures of PUC certificates issued by the firm during the period is taken into account, percentage of vehicles possessing PUC certificate ranged from 7 per cent to 9 per cent only during the period 2011 to 2015, thereby leading to the conclusion that 90 per cent or more number of registered vehicles were plying in the State without PUC certificates against the prescribed provision of CMV Act/Rules and SMVR, 1971 causing environment pollution and health hazard to the general public.

Even on subtracting vehicles registered in various other series J (Jeep), B (Buses), D (Goods Vehicles) and Z (Luxury Tourist Taxi) which may undergo emission test and obtain PUC certificates from outside the State as they run inter-State for transportation services of goods and passengers, the number of PUC certificates issued by the firm (9008 to 9846) during the period 2011-15 was far less than the total registered vehicles (25,071 to 39,396) during the same period in the series P (Private Four-wheelers); G (Government vehicles); T (Local taxi) and E (Tractors and trailers) which ply within the State only and chances of availing auto emission services outside the State by these vehicles was remote.

Further, the firm did not maintain records of vehicles detected for emission of excessive smoke and reported for re-test. Thus, in absence of such records, number of vehicles running without re-test for issue of fresh PUC certificate and polluting the environment was not available with the firm. The firm failed to produce relevant records requisitioned through Transport Department (Motor Vehicles Division) to enable Audit to verify the factual position submitted by the firm.

4.12.5.9 Auto Emission Test and issue of PUC certificate against the provision of Act/Rules

Rule 115(7) of the CMV Rules, 1989 requires that every motor vehicle on expiry of one year from the date of initial registration should obtain a PUC certificate which shall be valid for six months.

However, audit scrutiny revealed that while notifying the SMV Rules, 1991 the Department prescribed the validity of PUC certificates for a period of one year for vehicle registered for first time vide Rule 170(3) of Rules, 1991 *ibid* against the requirement of obtaining PUC certificates on expiry of one year from the date of initial registration as per CMVR 1989. Similarly, while entering into agreement with the firm the Department incorporated validity of PUC certificates vide clause 13(b) of the agreement that the certificates issued by the firm shall be valid for a period of six months from the date of test. For the new vehicle registered from the registering authority, the validity of the certificate initially shall be for a period of one year or 12 months from the date of registration.

The firm was issuing PUC certificates valid for six months only for the vehicles already on the road as well as for new vehicles. Thus, incorporation of faulty clause in the SMV Rules and agreement resulted not only in unauthorised action by the Department as per the provision of CMV Rules, but also resulted in extra financial burden on the new

vehicle owners amounting to ₹ 18.35 lakh¹³. This also led to undue benefit to the firm to that extent during the period from April 2010 to March 2015.

While accepting the Audit observation, the Department stated (October 2015) that inadvertent mistake in agreement would be rectified. The Department, however, contended that there was no extra financial burden to vehicle owners. Reply of the Department is not acceptable as the agreement compelled the new vehicles to obtain PUC certificate right from the date of its registration with the validity period of six months only instead of expiry of one year from the initial registration.

4.12.5.10 Absence of periodical checking of AETCs

As per clause 18 of the agreement, AETCs established by the firm should be inspected occasionally by the Department or his authorised representative. The firm shall be required to produce all registers, papers, etc. on demand and allow examination of the activities of centre as well as the efficiency of the equipment for proper and reliable result of auto emission test and certificate thereof by the firm. However, no such periodical checking was conducted by the Department during the period under audit.

The Department stated (October 2015) that the Enforcement wing of MVD was conducting/inspecting the AETCs, however, due to insufficient technical manpower, the Department was unable to inspect AETCs in frequent intervals. Reply of the Department was not acceptable as no records with regard to inspection of AETCs conducted by the Department during the period covered under audit was available with the Department.

4.12.5.11 Lease rent of Government premises not revised

Government premises at Jorethang and Deorali were leased out to M/s SiMTEI for running auto emission test centres at lease rent of ₹ 193 and ₹ 530 per month respectively based on assessment given by the Building and Housing Department in April 2002. Whereas Shri M.L. Sharma was provided space for sale of forms at SNT complex, Gangtok, no records could be provided to Audit with regard to rate of rent and commencement of occupancy.

Scrutiny of records revealed that lease rent of Jorethang and Deorali were not revised since 2002 despite revision of rates by the Government from time to time with regard to hiring of private buildings by the Government and latest rate was revised in December 2011 @ ₹ 1,100/sft from ₹ 300/sft. In case of Jorethang, the amount of lease rent short realised was ₹ 0.39 lakh.

While accepting the audit observation, the Department stated (October 2015) that it would pursue the matter of revision of rent of leased Government premises at Gangtok and Jorethang with the Building and Housing Department and outcome of the same would be intimated to Audit.

¹³ Total new registration with effect from April 2010 to March 2015 = 25,110-2,169 (PUCs issued by M/s Navigator) = 22,941. Taking lower rate of ₹80 for all the vehicles, the fee for PUC certificates to be paid for 22,941 vehicles = 22,941 x 80 = ₹18,35,280.

4.12.6 Sale of Forms

Forms of application for various services have been prescribed in the CMV Act, 1988, CMV Rules, 1989 and SMVR, 1991. These forms are required for applying services, viz. registration of vehicles, application for driving license, change of ownership of vehicle, obtaining the permit, hypothecation of vehicle, etc. The Department outsourced (March 1990) printing and sale of forms to Shri M.L. Sharma. The initial cost of form was fixed at ₹ 1 per form, out of which ₹ 0.25 was to be deposited by the agent into Government account: 0041 Taxes on Motor Vehicle as royalty. The rate has been revised from time to time with the increase in the printing cost of forms. Till date of audit, rate of various forms had been prescribed at ₹ 8 per form out of which ₹ 3 was required to be deposited into Government account as royalty.

Audit scrutiny of records revealed the following shortcomings:

- The Ministry of Surface Transport, Government of India vide letter dated 11 May 1999 directed the State Government/Department to provide forms to the public free of cost. Despite instruction from the Ministry, the Department continued to sell various forms to the public through its agent on payment basis resulting in extra financial burden of ₹ 39.57 lakh¹⁴ to the vehicle owners during the period 2008-09 to 2014-15.

The Department stated (October 2015) that although the letter was received from the Ministry, however, there was no specific instruction in the MV Act/Rules for providing forms to public free of cost. The Department had awarded the work to agent (Shri M.L. Sharma) due to lack of budgetary provision and further, the general public had the option either to download the forms from the website or to purchase the forms. Reply of the Department is not acceptable as the Department had not taken any action in the last 25 years for providing the services to the general public at minimum cost with competitive bidding. Further, the Registering authorities accepted the forms sold by agent countersigned by designated officer/official of the Department and did not accept the downloaded or photocopied forms.

- The agent had not obtained the approval for printing of forms from the Department and did not furnish quarterly report also indicating sale and stock position to the Department as specified in the work order which led to non-compliance of terms and conditions of work order.

The Department stated (October 2015) that all forms were printed with its prior concurrence and annual reconciliation was being done. The agent was adhering to all the terms and conditions of the work order. The reply is not acceptable as the Department failed to produce the relevant records during audit despite written requisition and could not furnish any documentary evidence also to substantiate the reply.

¹⁴ Total form sold = 4,94,619 numbers @ ₹ 8 per form.

4.12.7 Conclusion

The State Government had outsourced three activities, viz. implementation of HSRP, Smoke emission testing and Sale of various forms for availing services under MV Act and Rules. Though the Department successfully implemented the HSRP scheme in the State, however, implementation process lacked efficiency and effectiveness. The data on vehicles' population was not reliable as there was marked difference in the report furnished by the Department based on its computerised system with that shown in its own Annual Reports. The Department failed to assess the reasonability of rates while awarding the contract to the successful bidder for affixing HSRP resulting in higher cost of HSRP affixation in the State as compared to other States. The Department did not float NIT well in time to protect the revenue interest of the State and could not avail competitive rates for subsequent term and instead kept on renewing the contract to the existing firm for a period exceeding a year.

Two Auto Emission Testing Centres were being operated in the State by one firm at an annual royalty of ₹ 0.90 lakh which was increased to ₹ 2.53 lakh as of March 2015. The contract with the existing firm continued to be renewed periodically despite submission of offers from other interested firms for operating the centres. This indicated absence of transparency and competitive bidding in selection process resulting in failure to safeguard the revenue interest of the State. Revenue sharing model was defective as it did not ensure linkage between the increasing number of vehicles and revenue to be deposited to the Government by the firm. Due to incorporation of defective clause in the contract agreement as well as in SMV Rules requiring the owners to undertake pollution control check every six months right from the date of registration even for new vehicles as against the provision of CMV Rules requiring pollution check only after expiry of 12 months from date of initial registration resulted into extra financial burden on vehicle owners. Only 7 to 9 per cent of registered vehicles in the State had obtained Pollution Under Control (PUC) certificates which indicated weakness of enforcement mechanism creating the possibility of increasing vehicular pollution in the State.

The services relating to sale of forms for availing various services under Motor Vehicles was outsourced to one agent since 1990-91 against the instruction of the Ministry of Surface Transport, GOI for issue of forms free of cost resulting in extra financial burden to the vehicle owners.

4.12.8 Recommendations

The Transport Department may consider implementing the following recommendations:

- Suitable action may be taken to provide HSRP to public at competitive rates as prevailing in other States. Timely action to ensure response to tender should be taken.
- Suitable action may be taken to link royalty from operation of AETC to number of registered vehicles.

- Action may be taken to provide various forms free of cost for availing different services.
- Adherence to the provisions of CMV Act/Rules and SMV Rules for issuance of PUC certificates should be ensured.
- Steps like tendering for selection of outsourced agents through competitive bidding, adherence to the terms and conditions of the agreements may be taken to safeguard Government and public interest.

FINANCE, REVENUE AND EXPENDITURE DEPARTMENT (COMMERCIAL TAXES DIVISION)

4.13 Deficiencies in the Input Tax Credit system

Value Added Tax (VAT) is a multi-point tax payable by manufacturer, processor, wholesaler and retailer on the value added at each point of sale with provision for credit of tax paid during purchase and also at each point of purchase of such goods at rates mentioned in Notification and Circulars issued under Sikkim Value Added Tax Act 2005 (SVAT Act) and Sikkim Value Added Tax Rules 2005 (SVAT Rules 2005). The tax payable by a dealer under the Act on sale is called Output tax while the tax paid by the dealer on purchases is called Input Tax. To avoid cascading effect of multiple taxations, a dealer is liable to pay the net tax through the process of setting off Input Tax Credit (ITC) from the Output tax. The net tax payable by the dealer shall thus be the difference between the output tax and the input tax.

The SVAT Act and SVAT Rules provide that ITC can be claimed only on sale of goods purchased from another registered dealer of the State and the dealer claiming ITC should not be a Compounded Tax payer¹⁵.

The online taxation system, including ITC within its ambit, named Sikkim electronic Vanijiyakar Administration (SeVA) was introduced in Sikkim in 2012-13. Accordingly, the entire process of taxation, right from registration of dealers to payment of taxes, has gone online since April 2012 under SeVA. In this online system, there are various modules for each of the components of VAT system such as registration, generation of way bills, filling of returns, ITC sales and purchases, etc. In Sikkim, unlike in other states, ITC claim of the retailer is initiated by the selling dealer (wholesaler) by uploading his sales details to registered dealer (retailer) and the buying dealer or retailer has got scope to either approve or reject it. When the buying dealer approves the claim, he gets ITC claim, which gets auto-filled in his return without the scope for any change in the figure of ITC claim. The sales uploaded by a particular wholesaler for ITC claims when approved by various retailers would remain in the system as 'ITC Sales' of that wholesaler and ITC sales as approved by a particular retailer (buying dealer) would remain in the system as 'ITC Purchases' of that buying dealer.

¹⁵ The dealer whose annual tax turnover exceeds ₹3 lakh but does not exceed ₹15 lakh.

During the period from April 2012 to March 2014, an aggregated amount of ₹ 16.36 crore was claimed as ITC as detailed below:

Table 4.13.1

| Year | Amount of ITC claimed | Number of dealers who claimed ITC |
|--------------|-----------------------|-----------------------------------|
| 2012-13 | ₹ 4.85 crore | 407 |
| 2013-14 | ₹ 11.51 crore | 582 |
| TOTAL | ₹ 16.36 crore | 989 |

In Sikkim, under the system as adopted by the Commercial Taxes Division (CTD) the system provides for an inherent control to prevent irregular ITC claims and role of the assessing authorities is limited to scrutiny of the returns and cross-verification of data related to returns data with ITC sales and purchases. However, scrutiny of relevant records and online data revealed the following inconsistencies in complying with the mandates of the pertinent Act and Rules:

4.13.1 ITC system not in compliance to provision

As per Section 21(1) of SVAT Act 2005, ITC shall be claimed by a registered dealer only on sale of goods that are locally purchased from another registered dealer. In the system as adopted by the CTD, once the wholesaler uploads sale and the retailer approves it, the retailer gets ITC regardless of whether those goods are sold or not.

Moreover, the system was also not designed to upload and check details of ITC sales to ensure the actual sales as required under Section 21(6) of SVAT Act 2005 which states that 'No dealer shall claim input tax credit in respect of inputs purchased, unless he is in possession of an original copy of tax invoice, signed and issued by the selling registered dealer containing the prescribed particulars of sale'.

The provisions of the Act were not taken care of in the system adopted by the CTD.

In reply, the Division stated (October 2015) that a dealer becomes eligible to claim ITC by his act of purchase of goods and the period in which he can avail the claim is the tax period in which the goods were purchased. The Division further contended that it was not necessary for the buying dealer to sell the goods for being eligible to claim the credit of input tax. The reply is not tenable as Section 21(1) of the SVAT clearly stipulates that an input tax credit as provided in this section shall be claimed by a registered dealer after complying with the conditions and restrictions prescribed for sale of goods in the circumstances specified under the sub-sections (a), (b), (c), (d) and (e) of Section 21(1). Hence, actual sale of goods as per the Act is one of the criteria for claiming credit of input tax.

4.13.2 ITC Sales or Purchases module not linked with Returns module

ITC Sales: The ITC sales uploaded by the wholesaler were not linked with declaration of 'Sale to registered dealer' filed by that dealer in the returns, due to which there were risks of (i) giving ITC claim to the retailer but not showing it as 'sale to registered dealer' in the return; and (ii) non-uploading of ITC sales by the wholesalers which can result in double taxation or over burdening the consumer. Audit cross verified the ITC Sales and quarterly returns of eight wholesalers as detailed in **Appendix 4.13.1** and found that in all the cases,

there were differences in the figures between ITC claims and ‘sales to registered dealer’ declared in the returns. The difference was as high as ₹ 24.80 crore in case of Indian Oil Corporation, which meant that the retailers could not claim credit of Input Tax. Although tax was paid by the retailer while purchasing the goods, adjustment of the input tax paid was not made when the same goods were sold to the consumer resulting into possibility of double taxation with the consequence of ultimately getting it shifted to the consumers. Again, in case of four wholesalers¹⁶, ITC claims were more than the sales declared in returns indicating that ITC credit was allowed but the tax was not actually realised from the retailers, as the same was not reflected in their quarterly returns.

In reply the CTD stated (October 2015) that ITC module was not directly linked with the return module to provide scope for availing ITC for retrospective period. It was further stated that there was process of scrutiny where tax authority could check the values of sales to registered dealers in the quarterly return against the value of ITC sales entered for relevant months. Moreover, all the dealers had also been asked to explain the reason of the difference in the figure of ITC sales and ‘sale to registered dealer’. The reply is not acceptable as there were differences in figures in all the eight cases checked by audit and CTD could not readily explain the differences for which dealers were asked to clarify the differences.

ITC Purchases: The ‘ITC purchase’ of a retailer is the ‘ITC sales’ uploaded by the wholesalers and approved by the retailer. Moreover, ITC cannot be claimed for non-taxable goods and goods purchased from non-registered dealer even if it is purchased within the State. Considering these facts, gross amount of ITC purchase should never be more than the total amount of local purchases shown in the returns and in absence of purchase of non-taxable goods or purchase of goods from non-registered dealer, ITC purchase must be equal to local purchase shown in the quarterly returns. However, it was observed that the ITC purchase module and module related to local purchase mentioned in the returns were not linked in the system. It was observed in the cases of 11 dealers checked by audit, while ITC purchases were either more or less than the local purchases in case of 10 dealers, whereas ITC purchase in case of the remaining one dealer was equal to local purchase as detailed in **Appendix 4.13.2**. Since the ITC module was not linked with the return module, the differences were not detected by the system.

Agreeing to the observation, CTD stated (October 2015) that the differences pointed in audit was due to various reasons such as wrong filing of returns, wrong entries of data, etc. and accordingly, returns were revised and dealers were asked for clarification for such differences. The CTD further stated that the local purchases may not always be equal to ITC purchases due to non-taxable goods purchased from registered dealers and local purchases from non-registered dealers. This justification is not tenable in the instant cases pointed out by audit as the differences were mainly due to wrong filing of returns, wrong entries of data or ignorance of the dealers and the same could not be detected either by the system or by the authority scrutinising the returns.

¹⁶ 1) M/s Goodwill Enterprises, 2) Ess Ess Traders, 3) Himalayan Hardware and 4) Samvritdhi.

The CTD either should explore the possibility of linking ITC Sales and Purchase module with the Returns module or strengthen its scrutiny procedure to prevent recurrences of differences as pointed out by audit.

4.13.3 Non-adjustment of 'negative' tax payable

Section 20 (3) (b) of SVAT 2005 provides that if an amount of net tax payable is negative, an amount of credit remaining after the adjustment so made shall be carried forward to the next quarter. During 2012-13 when online system was initiated, though purchases were made from wholesalers, ITC could not be claimed by the retailers as the same was not uploaded by the selling dealer. In most of the cases, the ITC sales of 1st and 2nd quarter of 2012-13 were altogether uploaded in the 3rd or 4th quarter of 2012-13. Audit test checked returns of 30 dealers out of which in case of 14 returns, the Input Taxes were more than the Output Taxes and the 'tax payable' were shown as negative. These adverse balances were not adjusted in the next quarter, due to which the retailers could not avail of the benefit of ITC. This resulted in double taxation to the extent of unadjusted amount.

Agreeing to the observation, CTD stated (October 2015) that ITC could have been availed of by the buying dealers only after approving the ITC sales data uploaded by the selling dealer. The buying dealer could assess his output tax and accordingly could approve the month-wise ITC sales data in such a manner that there would be no surplus credit. The reply is not relevant to the observation that there were cases where the tax payable were less than the ITC claimed and the present online system had not taken care of the provision of Section 20 (3) (b) of SVAT 2005 relating to carrying forward of negative tax payable in the next quarter. The CTD also clarified that the case of negative tax payable was only during the first year and there was no such case thereafter. However, fact remained that presently there may not be any case of negative tax payable, but the system should be in place to take care of such cases.

4.13.4 Absence of criterion and procedure for Tax Audit

Under section 39(2) of the SVAT Act 2005 read with sub clause (1) Rule 47 of SVAT 2005, the Commissioner may select not less than 20 *per cent* of the registered dealers for audit of input tax credit and tax payable by each of them for any period or year on or before the 31 March, such selection being made by draw of lots either mechanically or with the use of computers. The audit of the dealer shall be conducted by the auditor in well laid down procedure.

However, it was observed that neither any criterion/procedure for tax audit had been formulated in the State as of August 2015, nor was any audit party constituted for conducting audit to ensure the veracity of ITC claimed by the dealers on the basis of actual turnovers. This omission had made the system vulnerable to the risk of suppression of assessable turnover and evasion of tax by the errant dealers, besides the risk of breaking the VAT chain in the context of cross verification before allowing ITC claims.

Agreeing to the observation CTD stated (October 2015) that at the instance of audit, the Tax Audit team had been constituted.

4.14 Loss of revenue owing to suppression of sales turnover by the hoteliers

Inadequate action on the part of the Assessing Authorities to scrutinise the e-returns submitted by the hoteliers in respect of sales of cooked food and non-alcoholic beverages for the period 2012-13 and 2013-14 led to loss of revenue of ₹ 2.59 crore.

According to Rule 12 of the Sikkim Value Added Tax Act 2005, hoteliers dealing with sale of cooked food and non-alcoholic beverages were required to pay SVAT on total sale turnover at the rate of 12.5 per cent on the sale of goods specified in the Schedule V of the Act.

Scrutiny of records of the Commissioner, Commercial Taxes Division revealed (May 2015) that during 2012-14, in five cases (out of 10 cases test checked), the hoteliers deposited SVAT of ₹ 3.02 crore¹⁷ on reduced turnover of ₹ 24.13 crore as against the actual turnover of ₹ 44.84 crore towards the sale of cooked food and non-alcoholic beverages as detailed below:

Table 4.14.1

| Name of hotel | Year | Gross turnover | Actual turnover on sale of cooked food and non-alcoholic beverages | Turnover at which SVAT realised @ 12.5 % | Difference | Loss of revenue |
|---------------|---------|------------------|--|--|------------------|-----------------|
| Mayfair | 2012-13 | 217737340 | 158788001 | 71997744 | 86790257 | 10848782 |
| | 2013-14 | 246900472 | 109140593 | 81525040 | 27615553 | 3451944 |
| Royal Plaza | 2012-13 | 63210459 | 38265688 | 24823915 | 13441773 | 1680222 |
| | 2013-14 | 59178900 | 19571265 | 19571265 | 0 | 0 |
| Norkhill | 2012-13 | 31144000 | 31144000 | 10893800 | 20250200 | 2531275 |
| | 2013-14 | 31983700 | 31983700 | 12667278 | 19316422 | 2414553 |
| Mount Pandim | 2012-13 | 23495232 | 23495232 | 8025024 | 15470208 | 1933776 |
| | 2013-14 | 25430700 | 25430700 | 9942067 | 15488633 | 1936079 |
| Sonam Delek | 2012-13 | 4761092 | 4116745 | 857965 | 3258780 | 407348 |
| | 2013-14 | 7958255 | 6502255 | 999393 | 5502862 | 687857 |
| TOTAL | | 711800150 | 448438179 | 241303491 | 207134688 | 25891836 |

Thus, inadequate action on the part of the Assessing Authorities to scrutinise the e-returns and suppression of turnover by these hoteliers led to loss of revenue of ₹ 2.59 crore.

The Division, in its reply, stated (June 2014) that the intention of the hoteliers was not to evade the tax but due to lack of knowledge during the initial stages of SVAT, the hoteliers clubbed the room services with the taxable items and wrongly filed the quarterly returns. In a subsequent reply, the Division forwarded (August 2015) the copies of revised returns submitted by the hoteliers, scrutiny of which revealed that these were revised by simply reducing the taxable turnover of 'Sale of cooked food and non-alcoholic beverages' and including the same under 'Receipts against supply of all kinds of services' which were exempt of SVAT.

The reply was not tenable as the 'cooked food and non-alcoholic beverages', 'alcoholic beverages' and 'supply of all kinds of services' had been clearly segregated in the e-returns filed by the hoteliers. Further, the revised returns were also not acceptable as the figures in respect of 'Receipts against supply of all kinds of services' mentioned therein

¹⁷ ₹ 24,13,03,491 x 12.5 per cent = ₹ 3,01,62,936.

varied widely with those mentioned in the Service Tax returns separately submitted by these hoteliers casting doubt on the reliability of the figures subsequently altered by the hoteliers and accepted by the Division.

ENERGY AND POWER DEPARTMENT

4.15 Loss of revenue

Failure of the Department to install Maximum Demand Indicator resulted in non-levy of Demand Charges of ₹ 0.42 crore from High Tension Supply consumers for the load exceeded over and above the Contract/Sanctioned demand.

The Sikkim State Electricity Regulatory Commission (SSERC) notifies the electricity tariff to be levied from the consumers for supply of electricity by the Energy and Power Department (the Department), Government of Sikkim. The SSERC revised the tariff schedule from time to time. As per the tariff schedules effective since April 2012, all types of supply with contract demand¹⁸ at single point having three phases supply voltage above 3.3 KV had been categorised as High Tension Supply (HTS). The tariff of HTS consumers consisted of two parts - fixed charges and variable charges on energy. While fixed (demand) charges were levied on the respective sanctioned/contracted load of the HTS consumers, the energy charges were levied for the units of energy consumed during a particular month.

The Tariff Schedule also provided for installation of Maximum Demand Indicator (MDI) at the consumer premises to record the maximum electricity demand on monthly basis. If in a month, the recorded maximum demand exceeded the contract demand, that portion of the demand in excess of the contract demand had to be billed at twice the prevailing demand charges. Audit scrutiny revealed that the Department had not installed /insisted for installation of MDI in respect of majority of HTS consumers due to which the actual load/demand was not being recorded. The Department also failed to observe the actual demand of the consumers with respect to the energy consumption and bill additional demand charges wherever the actual demand had exceeded the sanctioned/contracted demand.

Audit worked out the actual electricity demand of the HTS consumers given in the Annexure with respect to the recorded energy consumption using reverse calculation of the formula¹⁹, viz. $KVA \times 0.8$ (power factor) $\times 24$ (hours) $\times 30$ days $\times 0.6$ (load factor). It

¹⁸ Energy demand sanctioned by the Executive Engineer.

¹⁹ KVA (Kilo volt ampere) is the unit for measuring real power supplied to the consumer. However, on load side (consumption), due to induction and presence of reactive power owing to the conditions of equipment, the actual recorded power consumption measured in KW (kilo watts) would be lesser than

was observed in 14 cases that the HTS consumers had drawn load in excess of the contracted demand/sanctioned load. The excess demand/load was, however, not assessed as per the tariff schedule. The additional demand charges exceeding the contract/sanctioned demand worked out to ₹ 0.42 crore (**Appendix 4.15.1**) during the period from April 2012 to March 2014.

Thus, due to non-installation of MDI and failure of the Department to monitor the demand with respect to the actual energy consumption resulted in revenue loss of ₹ 0.42 crore.

While accepting the audit observation, the Department stated (September 2015) that the consumers were at liberty to pay the contract demand as per installed KVA capacity of the transformer or install MDI meter with approval from the Department. If in a month, the recorded maximum demand exceeded the contract demand, the demand in excess of contract demand would be billed at twice the prevailing demand charges. The Department further stated that necessary action was being initiated to install MDI in all HTS consumers.

EXCISE (ABKARI) DEPARTMENT

4.16 Non-realisation of Government dues

The Department failed to realise committed payment of ₹ 5.79 crore from the person entrusted with management, control and governance of Sikkim Distilleries Limited (SDL) during December 2009 to March 2015. The State exchequer also suffered a resultant loss of ₹ 1.20 crore towards interest that could have been earned from the investment of revenue not realised.

The Sikkim Distilleries Limited (SDL) is a Company registered under the provisions of the Registration of Companies Act, Sikkim, 1961 having its registered office at Rangpo, East Sikkim. The Company is operating primarily in the State of Sikkim and is in the business of brewing, distilling and manufacturing of whisky, rum, brandy, wine, country spirits, beer and other related alcoholic beverages.

The authorised share capital of the company was ₹ 10,00,00,000 divided into 1,99,90,000 ordinary shares of ₹ 5 each and 500 preference shares of ₹ 100 each against which the issued, subscribed and paid up share capital was ₹ 5,03,88,815 divided into 1,00,69,763 ordinary shares of ₹ 5 each and 400 preference shares of ₹ 100 each. Out of the above, the State Government held 48,24,817 ordinary shares of ₹ 5 each, one Shri Harish Aneja held 18,58,448 ordinary shares of ₹ 5 each and the small shareholders (737 in number) held

the real power drawn. The ratio of KW to KVA is called Power Factor (PF). Since all installations may not be used at the same time, a Load Factor (LF) is applied for working out the KVA demand. So, monthly consumption of energy = KVA x PF x LF x number of working hours in a day x 30 days.

15,59,265 ordinary shares of ₹ 5 each and 400 preference shares of ₹ 100 each in the entire paid up share capital of the Company. As per the agreement, balance 18,27,233 ordinary shares of ₹ 5 each were *sub-judice*.

Against the backdrop of the situation that the Company was not working commercially well (as mentioned in the agreement) and with a view to achieve synergies of operation and streamlining functioning of the Company, the Board of Directors decided (September 2009) to vest the entire management, control and governance of the Company to Shri Harish Aneja, the single largest shareholder of the company. Accordingly, an agreement for 20 years was entered (14 December 2009) amongst the State Government, the small shareholders of Sikkim Distilleries Limited (SDL), Shri Harish Aneja and the SDL for vesting the entire management, control and governance of the SDL to Shri Aneja.

In terms of Clause 3.1 (a) of the agreement, Shri Aneja agreed to pay ‘Committed Payment’ at the rate of ₹ 3 per share per year with respect to 48,24,817 and 15,59,265 ordinary shares held by the State Government and the small shareholders respectively. The year-wise break-up of committed payment required to be paid by Shri Aneja to the Government and the small shareholders accordingly worked out to ₹ 1.45 crore and ₹ 46.78 lakh respectively per year. The committed payment was to be remitted within 180 days after the end of each term of 365 days from the effective date of agreement. In case the Company declared dividend in any year during the operating term and remitted the same to the Government and small shareholders, then the obligation of Shri Aneja for making committed payment under the agreement would stand reduced by the amount already remitted by it to the Government and the small shareholders. The basis for arriving at the rate of committed payment of ₹ 3 per share payable by Shri Aneja was elucidated neither in the Departmental notes nor in the agreement.

Scrutiny of records revealed (October 2014) that there was a serious flaw in the agreement drawn between the parties. No penal clause was incorporated in the agreement envisaging any punitive measure to be adopted in the event of Shri Aneja failing to remit committed payment to the Government within due dates. Further, although letter was issued (May 2013) for payment of dues, the Department did not take any effective initiative to recover the amount. As a result, Shri Aneja did not pay any amount to the Government in terms of the agreement. Moreover, the Company also did not pay any dividend to the Government. As on 31 March 2015, the total committed payment due from Shri Aneja stood at ₹ 5.79 crore as detailed below:

Table 4.16.1

(₹ in lakh)

| Sl. No. | Term | | Amount of committed payment due | Number of days delayed beyond the grace period of 180 days till 31 March 2015 | Loss of interest @ 9% ²⁰ |
|---------|--------------|------------|---------------------------------|---|-------------------------------------|
| 1 | 14-12-2009 | 13-12-2010 | 144.74 | 1389 | 49.57 |
| 2 | 14-12-2010 | 13-12-2011 | 144.74 | 1024 | 36.55 |
| 3 | 14-12-2011 | 13-12-2012 | 144.74 | 658 | 23.48 |
| 4 | 14-12-2012 | 13-12-2013 | 144.74 | 293 | 10.46 |
| | TOTAL | | 578.96 | | 120.06 |

²⁰ Rate of interest on retail domestic deposits below ₹ one crore.

Thus due to non-remittance of yearly committed payments within the due dates, the Government was denied opportunity to utilise its revenue aggregating ₹ 5.79 crore. Further, the State exchequer also suffered a resultant loss of ₹ 1.20 crore towards interest that could have been earned from investment of unrealised Government revenue calculated at the rate of 9 per cent per annum from the aforementioned due dates.

The Department intimated (June 2015) that they had realised ₹ 4.34 crore as committed payment for the period 14 December 2009 to 13 December 2012, after being pointed out by Audit, and was is in the process of obtaining the remaining committed amount for the period 14 December 2012 to 13 December 2014.

However, the fact remained that due to delayed realisation, Government suffered unrecoverable interest loss of ₹ 1.20 crore till March 2015 and revenue of ₹ 1.45 crore also remained unrealised.

4.17 Loss of revenue

Error in language in the notification for imposing bottling fee resulted in a revenue loss of ₹ 4.32 crore during the years 2011-12 to 2013-14.

Rule 33 and 34 of Sikkim Excise (Distillery for Manufacture of Spirit and Foreign Liquor) Rules 2000, *inter alia*, envisage that licensee may undertake the job of manufacturing of brands of foreign liquor on behalf of manufacturers from outside the State and in such cases, bottling fee as prescribed by the State Government may be charged to the licensee on the volume of production.

On March 2011, the Department decided to charge such bottling fee and issued Notification (9 March 2011) prescribing a fee of ₹ 15 per case for Beer bottled in Sikkim.

It was, however, noticed (September 2013 and June 2015) that the Department could not impose the prescribed fee despite notification due to error in its language. Though the Department intended to charge bottling fee on Beer bottled in Sikkim on behalf of companies located outside Sikkim, it wrongly connoted the same as “Beer Bottled from outside Sikkim” in the notification. Due to this mistake, the Department was unable to realise bottling fee on the basis of the said notification. Consequentially, during the period 2011-14, an amount of ₹ 4.32 crore could not be realised from two breweries as under:

Table 4.17.1

| Breweries | Year | Total production (Cases) | Bottling fee (Cases x ₹15) |
|---|---------|-----------------------------|-------------------------------|
| M/s Denzong Albrew Ltd. Mulukey, Rhenock | 2011-12 | 6,95,633 | 1,04,34,495 |
| | 2012-13 | 7,99,972 | 1,19,99,580 |
| | 2013-14 | 13,63,956 | 2,04,59,340 |
| M/s Sikkim Breweries Ltd, Baghay Khola | 2012-13 | 19,223 | 2,88,345 |
| TOTAL | | | 4,31,81,760 |

While accepting the audit observation, the Department stated (April 2015) that in pursuance of audit observation, the notification was amended in August 2014 and bottling

fee was being realised from the concerned breweries. The fact remained that due to the error in the notification, the Government had to suffer a revenue loss of ₹ 4.32 crore. Further, loss could have been substantially minimised, had the Department taken timely action to issue amended notification immediately after its being initially pointed out by Audit in September 2013.

FINANCE, REVENUE AND EXPENDITURE DEPARTMENT (DIRECTORATE OF SIKKIM STATE LOTTERIES)

4.18 Loss of revenue

Without issue of original license which should have been obtained against payment of ₹ five crore for five years, renewal of the same @ ₹ 50 lakhs per annum for five years resulted in revenue loss of ₹ 2.50 crore.

According to Sikkim Casino Games (Control and Tax) Rules 2007, any interested person/company/firms desiring to obtain license for operating casino games may apply for issue of the same (Rule 3). On receipt of such application, the State Government after making necessary enquiries in this regard, may grant the provisional license for five years or refuse to grant the license without assigning any reason or reasons (Rule 4). License may be issued for operating of casino and casino games in a hotel having infrastructural and other facilities of the standard of any five-star hotel with capability to establish and operate casino games (Rule17).

State Government amended (March 2011) the Sikkim Casino Games (Control and Tax) Rules 2007 by substituting Rule 4 with the stipulation that on receipt of such application, the State Government on its satisfaction that the applicant has a hotel having infrastructural and other facilities of the standard of any five star hotel with capability to establish and operate casino games, may grant a provisional license for six months against the payment of ₹ one lakh made one month prior to issue of such license to enable the licensee to set up the necessary infrastructure and other requirements and to commence operation of casino games at any time within the said period. If required, the provisional license may be extended for a further period of six months on payment of additional fee of ₹ one lakh. On full compliance of the stipulations prescribed in the said provisional license, the Government may grant a regular license under Rule 17 for operation of casino games for five years on payment of ₹ five crore.

Scrutiny of records of the Directorate of Sikkim State Lotteries (DSSL) revealed that M/s Teesta-Rangit Pvt. Ltd. (TRPL) had entered into an agreement with the State Government (6 November 2007) and was granted a provisional license (12 November 2008) for five years (12 November 2008 to 11 November 2013) under Rule 4 of Sikkim Casino Games (Control and Tax) Rules 2007 for installation and operation of casino games. One of the conditions laid down in the license was that the original license under Rule 17 will be

issued after fulfilment of norms of five-star hotel infrastructure facilities within five years.

DSSL requested TRPL (30 October 2013) to cease operation of casino games with effect from 12 November 2013 as the provisional license was expiring on 11 November 2013. TRPL filed a writ petition before the High Court of Sikkim to quash the order issued by the Directorate. By an interim order (11 November 2013), the High Court stayed the operation of Government's letter and permitted the petitioner to continue with the operation of casino games. The High Court of Sikkim passed an order (18 February 2014) to TRPL to move an application for renewal of the license as per Rule, if they so desired. In view of the Government's approval (18 August 2014) for renewal of license, the High Court disposed off the writ petition (29 August 2014).

The DSSL renewed (29 September 2014) the license under Rule 17 of Sikkim Casino Games (Control and Tax) Rules 2007 for one year by realising ₹ 50 lakh as renewal fee as approved by the Government. As per the Rule, a provisional license was to be issued for six months (renewable for six months on payment of ₹ 1 lakh) after which on fulfilment of certain stipulations, a regular license could be issued for five years on payment of ₹ five crore which could again be renewed annually @ ₹ 50 lakh per annum. In this case, the Government issued a provisional license and did not issue any regular license. However, without issuing the regular license, the Government without support of any Act/Rule renewed it @ ₹ 50 lakh per annum rendering not only extension of undue favour to the licensee but it also resulted in a revenue loss of ₹ 2.50²¹ crore during the five years period. Further, the Directorate had neither obtained any information from other agencies like Tourism Department nor ascertained itself about the fulfilment of stipulated condition of the hotel attaining infrastructural and other facilities of the standard of any five-star hotel for issue of the regular license under Rule 17.

In their reply, the DSSL stated that as no fee had been prescribed for renewal of provisional license after the term of five years, they renewed the same @ ₹ 50 lakhs for one year under Rule 17. Reply of the DSSL was not tenable, as the fact remained that without issuing the regular license, the Government renewed it @ ₹ 50 lakh per annum which did not have support of any Act/Rule.

²¹ *Fee for issue of License for 5 years (₹ 5 crore) – Fee being realised for 5 years (@ ₹ 50 lakh) for the period (1 October 2014 to 30 September 2019)*

CHAPTER V GENERAL SECTOR

5.1 Introduction

This Chapter of the Audit Report for the year ended 31 March 2015 deals with the findings on audit of the State Government units under General Sector.

The names of the State Government departments and the total budget allocation and expenditure of the State Government under General Sector during the year 2014-15 are given in the table below:

Table 5.1.1

(₹ in crore)

| Sl. No. | Name of the Departments | Total Budget Allocation | Expenditure |
|---------|--|-------------------------|-----------------|
| 1 | Development Planning, Economic Reforms and North Eastern Council Affairs | 117.05 | 35.54 |
| 2 | Election | 16.23 | 16.37 |
| 3 | Governor | 6.16 | 5.80 |
| 4 | Finance, Revenue and Expenditure | 1,508.52 | 1,125.37 |
| 5 | Home | 62.80 | 46.13 |
| 6 | Information and Public Relation | 12.81 | 10.59 |
| 7 | Information Technology | 34.01 | 17.80 |
| 8 | Judiciary | 25.89 | 21.50 |
| 9 | Land Revenue and Disaster Management | 462.70 | 267.88 |
| 10 | Law | 8.46 | 8.08 |
| 11 | Legislature | 17.80 | 17.42 |
| 12 | Parliamentary Affairs | 1.81 | 1.30 |
| 13 | Personnel, Administrative Reforms and Training, Public Grievances, Career Options and Employment, Skill Development and Chief Minister's Self Employment Schemes | 13.19 | 7.87 |
| 14 | Police | 314.62 | 273.35 |
| 15 | Printing and Stationery | 8.00 | 8.00 |
| 16 | Public Service Commission | 3.39 | 3.39 |
| 17 | Science, Technology and Climate Change | 7.47 | 1.96 |
| 18 | Sports and Youth Affairs | 23.08 | 13.71 |
| 19 | State Excise (Abkari) | 7.02 | 6.83 |
| 20 | Vigilance | 6.35 | 6.42 |
| | TOTAL | 2,657.36 | 1,895.31 |

Besides the above, the Central Government has been transferring a sizeable amount of funds directly to the implementing agencies under the General Sector to different departments of the State Government. The major transfers for implementation of flagship programmes of the Central Government are detailed below:

Table 5.1.2

(₹ in lakh)

| Sl. No. | Name of the Department | Name of the Scheme/Programme | Implementing Agency | Funds transferred during the year |
|--------------|--|--|---|-----------------------------------|
| 1 | Land Revenue and Disaster Management | MPLAD scheme | District Collector East | 500.00 |
| 2 | Science, Technology and Climate Change | Alliance and R&D Mission | Sikkim State Council of Science & Technology | 150.00 |
| | | State Science & Technology Programme | Sikkim State Council of Science & Technology | 106.12 |
| | | Environment Information Education and Awareness | Sikkim State Council of Science & Technology | 10.30 |
| | | Science and Technology Programme for Socio Economic Development | Kanchendzonga Conservation Committee | 9.66 |
| 3 | Sikkim Information Commission | Propagation of RTI Act – Improving Transparency and Accountability | Sikkim Information Commission | 3.00 |
| | | Propagation of RTI Act – Improving Transparency and Accountability | Accounts and Administrative Training Institute (AATI) | 5.48 |
| TOTAL | | | | 784.56 |

Source: Central Plan Scheme Monitoring System of the GOI.

5.2 Planning and conduct of Audit

Audit process starts with the assessment of risks faced by various departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls, etc.

After completion of audit of each unit on a test-check basis, Inspection Reports containing audit findings are issued to the heads of the departments. The departments are to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled based on reply/action taken or further action is required by the audited entities for compliance. Some of the important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the Legislature.

Test audits were conducted involving expenditure of ₹ 1,238.49 crore (including expenditure of ₹ 1,209.58 crore of previous years) of the State Government under General Sector. The details of year-wise break-up is given in **Appendix 5.2.1**. This Chapter contains one Performance Audit report on ‘Effectiveness in the functioning of State Pollution Control Board’ as given below:

FOREST, ENVIRONMENT AND WILDLIFE MANAGEMENT DEPARTMENT

5.3 Performance Audit on 'Effectiveness in the functioning of State Pollution Control Board'

Highlights

Annual Action Plan defining various activities and sub-activities was never prepared and thus policy, legislations and action plan programmes to control pollution was not ensured by the SPCB.

(Paragraph 5.3.7.1)

Against total of 256 industries (Pharmaceuticals, Hydro-Electric Power, Small-Scale Industries, Hot-mix Plants, Hotels, etc.), 86 numbers of Industries did not obtain Consent for Operation (CFO) for 2015-16. The number of Industries not obtaining CFO ranged between 13 and 32 during 2012-15.

(Paragraph 5.3.8)

Against total of 10 Sewerage Treatment Plants (STPs), nine STPs had not obtained Consent to Establish/Consent to Operate for treatment of effluents and only one STP was actually functioning.

(Paragraph 5.3.9.1)

Against total of 65 water polluting industries, five Effluent Treatment Plants (ETPs) were either not established or were found non-functional.

(Paragraph 5.3.9.3)

1,721.16 MT of hazardous wastes were generated against which only 619.04 MT was disposed of at TSDF and the remaining 1,102.12 MT of untreated hazardous waste were not transported through TSDF.

(Paragraph 5.3.10)

Health Care Facilities (HCFs) were functioning without BMW treatment facilities and Stone Crushers were operating without obtaining consent.

(Paragraph 5.3.11.2 and 5.3.12.2)

Board had never issued any advice for setting up vehicular pollution control laboratories nor were these laboratories set up by the MVD.

(Paragraph 5.3.12.4)

Against 11 slaughter houses in the State, 10 were functioning without any consent from the Board and had even not applied for the consents.

(Paragraph 5.3.16)

Audit survey revealed that around 72 per cent of the population was not aware of Pollution Control Board, 64 per cent of the population did not know the function and activities of the Pollution Board and the common citizen never approached SPCB for environmental issues.

(Paragraph 5.3.17)

Utilisation of funds by the Board was poor and it ranged between 19 and 24 per cent during 2012-13 to 2014-15.

(Paragraph 5.3.20.2)

The Board was functioning with shortage of 17 numbers of technical and non-technical staff.

(Paragraph 5.3.21.1)

The Board did not organise training programmes for target groups despite having huge unspent balance at the disposal of Board.

(Paragraph 5.3.24)

Against the minimum requirement of 20 meetings, the Board could hold only three meetings and no follow up action could be taken even for these three meetings.

(Paragraph 5.3.25)

5.3.1 Introduction

The Sikkim State Pollution Control Board (SPCB) was set up during 1992 to implement the provisions of Water (Prevention & Control of Pollution) Act, 1974, which was functioning under “State Land Use and Environment Board” of Department of Forest, Environment and Wildlife Management. The SPCB was separated from State Land Use Environment Board during March 2008. Since then the scope of its functioning has widened and it has been implementing following Environment Acts and Rules.

- The Water (Prevention and Control of Pollution) Act 1974;
- The Water (Prevention and Control of Pollution) CESS Act 1977;
- The Air (Prevention and Control of Pollution) Act 1981;
- The Public Liability Insurance Act 1981;
- The Environment (Protection) Act 1986 and the Rules made there under, i.e. Environment (Protection) Rules, 1986 and the rules made for Management and Handling of Municipal Solid Wastes (1999), the Bio-Medical Wastes (1998), Hazardous Wastes (2002), Plastic Wastes (1999), Batteries (2001) and E-waste (2011); and Noise (Regulation and Control) Rules 2000, as amended from time to time.

The Board had vision of cleaner and pollution free environment in the State of Sikkim with the following mission:

- To oversee the implementation of different Environment Acts and Rules in the State;
- To control and abate water, air, and soil pollution from industrial sources;

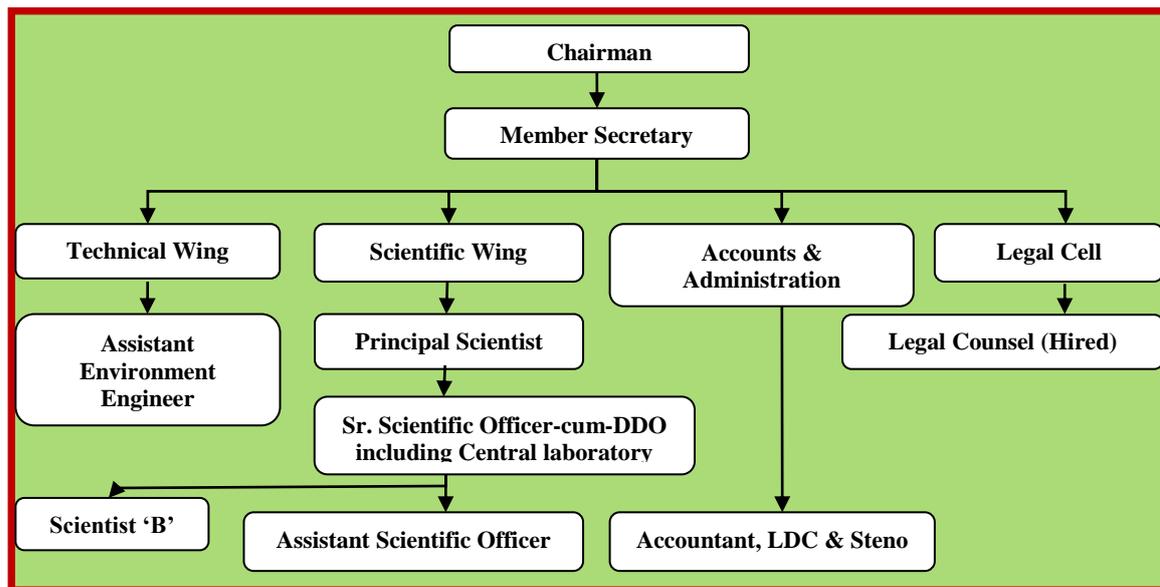
- To control and restrict use of horn, playing of loud speakers and bursting of fireworks;
- To protect the water bodies;
- To monitor water quality, air quality and noise level at major areas in the State;
- To encourage, conduct and participate in research activities on environmental issues; and
- Disseminate the information available with the Board.

This Performance Audit attempts to examine the functioning of the Board in the effective operation of safeguards relating to water pollution, solid waste management and air pollution in the State.

5.3.2 Organisational structure

The Board is headed by a Chairman who is assisted by the Member Secretary in day to day functioning of the Board. The organisational structure of the Board is given in the following organogram:

Chart 5.3.1



5.3.3 Audit objectives

The objectives of the Performance Audit were to assess whether:

- mechanisms adopted by SPCB to prevent, control and for abatement of pollution were effective and efficient;
- monitoring by the Board of the compliance to Acts, Rules and conditions by the stakeholders was efficient and effective;
- fund management by the Board was efficient to secure optimum utilisation; and

- adequate man power and effective Internal Control mechanisms existed.

5.3.4 Audit criteria

The sources of Audit criteria for the Performance Audit were:

- The Water (Prevention and Control of Pollution) Act 1974;
- The Water (Prevention and Control of Pollution) Cess Act 1977;
- The Public Liability Insurance Act 1981;
- The Air (Prevention and Control of Pollution) Act 1981;
- The Environment (Protection) Act 1986 and the Rules made there under, i.e. Environment (Protection) Rules 1986 and the Rules made for Management and Handling of Municipal Solid Wastes (1999), the Bio-Medical Wastes (1998), Hazardous Wastes (2002), Plastic Wastes (1999), Batteries (2001) and E-waste (2011); and Noise (Regulation and Control) Rules 2000, as amended from time to time;
- Directions and notifications issued by Central Pollution Control Board (CPCB), GOI and the State Government;
- Sikkim PWD Code, Manual and Schedule of Rates.

5.3.5 Audit scope and methodology

The Performance Audit sought to evaluate functioning of the Board regarding effective implementation of various Environmental laws and rules. Performance Audit covering a period of five years (2010-15) was conducted during May-July 2015 through test check of records of Board's Office and Central Laboratory of the Board, Urban Development and Housing Department (UDHD), Water Security and Public Health Engineering Department (WSPHED), Municipalities, Health Care, Human Services and Family Welfare Department (HCHSFWD) (including hospitals, thereunder) and other involved entities. Audit also analysed responses to audit questionnaires, reports and records available at various levels.

The Performance Audit commenced with an entry conference held on 19 May 2015 with the Secretary of Forest, Environment and Wildlife Management Department (FEWMD), Member Secretary and other senior officers of the Board, wherein, the audit objectives, criteria, scope and methodology were explained. The exit conference was held on 15 October 2015 with the Secretary of FEWMD, Member Secretary and other Senior Board officials, wherein the audit findings were discussed. Response of the Government/Board during exit conference and written replies received (15 October 2015) from Government/Board have been taken into account while finalising this report.

5.3.6 Sample size

The Board had only one office and one Central Laboratory at Gangtok without any regional/branch office and hence, records of the Board at Gangtok were verified. The

schemes relating to pollution control were being implemented by UDHD (Municipal Waste Collection and Treatment), WSPHED (Installation of Sewerage Systems and Sewage Treatment Plants) and HCHSFWD (Treatment of Bio-Medical Waste). Sikkim is having only four districts; for the purpose of audit, schemes implemented by these departments in East District and South District (50 per cent) were selected. Records of two Municipal Solid Waste (MSW) Plants were test checked which were under the control of UDHD. WSPHED was having six schemes for installation of Sewerage Systems and Sewage Treatment Plants (STPs) in East Sikkim and three in South Sikkim. Expenditure records of these nine schemes were audited. Records relating to HCHSFWD were examined at their Head Office. In addition, availability of treatment facilities for Bio-Medical Waste (BMW) was verified physically at State Hospital, Gangtok; District Hospitals (East and South) and Central Referral Hospital, Tadong.

Audit findings

Audit findings relating to effectiveness in the functioning of the Board are discussed in succeeding paragraphs:

Audit objective-1:

Whether mechanisms adopted by SPCB to prevent, control and for abatement of pollution were effective and efficient?

5.3.7 Planning Process

5.3.7.1 Comprehensive Action Plan to address environmental pollution

As per Section 17 (1) (a) of the Water (Prevention and Control of Pollution) Act, 1974 and Air Pollution Act 1981, the Board has to plan a comprehensive programme for the prevention, control or abatement of pollution of streams, wells and air in the State and to secure the execution thereof. Further, Annual Action Plan defining various activities and sub-activities proposed to be taken up including physical and financial targets to be achieved in the ensuing year in line with the vision and long/short term goals of the Board was to be prepared. However, audit found that the Board never prepared any Annual Action Plan.

Further, the Government had not formulated a separate policy for addressing water and air pollution in Sikkim. It had not enacted legislations for ecological restoration of rivers, lakes and groundwater. Periodic and regular meetings of the water quality review committee and ambient air quality review committee had not taken place to improve co-ordination between the Centre and the State. Thus, Policy, Legislations and Action Plan programmes to control pollution were not prepared by the State Government.

In reply, the Board stated that Annual Action Plan was not prepared due to lack of funds and assured that the Board would now prepare Annual Action Plan and place before the Hon'ble members of the Board for approval.

5.3.7.2 Database for identification of risk

As per Section 16 (2)(f) of the Water (Prevention and Control of Pollution) Act, 1974 and Section 16 (2)(g) of Air Pollution Act, 1981, the Board is required to collect, compile and publish technical and statistical data relating to pollution and the measures devised for its effective prevention and control and prepare manuals, codes or guides relating to treatment and disposal of sewage and trade effluents and disseminate information connected therewith. Further, the National Water Policy 2002 envisages development of an information system for water related data at the State level for resource planning. In order to plan the programme to prevent, control and for abatement of pollution, the Board must have a detailed database of the pollutants, sources of the same and pollution loads.

Audit however revealed that the Board had not prepared any such database. In absence of this, risks to the environment and health caused by pollution from water, air, noise, etc. could not be assessed by the Board. Hence, the Board was not able to exercise effective control over the industries and plan for pollution abatement measures in an effective manner.

5.3.7.3 Inventory of polluting sources

Inventory management is necessary for ready reckoning of type and number of industries and its discharge and its resultant impact on the environment. However, it was seen that the Board had not prepared any inventory of water polluting industries (Red, Orange and Green Category), air polluting industries and hazardous waste generated in the State. The Board had also not prepared any inventory of sources generating BMW, MSW, e-waste, effluent discharged from STPs, waste from slaughter house, plastic waste, etc. and systems for their handling and disposal in prescribed manner. While accepting the fact, the Board stated that a proposal for conducting survey for inventory of major river basins and their polluting sources would be initiated.

5.3.7.4 Establishing standard

Under the provisions of Section 64 of Water (Prevention, Control of Pollution) Act 1974 and Section 54 of Air (Prevention, Control of Pollution) Act 1981, the Board was required to prescribe its own standards for various types of pollutants. However, the Board had not prescribed its own standards for any kind of pollutant but was instead adopting various standards concerning different pollutants like industrial effluents, MSW, sewage effluent, etc. prescribed by the CPCB at the time of giving consent to establish/operate.

5.3.8 Industries operating without consent from the Board

As per Section 25 (1) (a) of the Water Act, no person shall, without previous consent of the State Board, establish or take any steps to establish any industry, operation or process, or any treatment and disposal system or an extension or addition thereto, which is likely to discharge trade effluent into a stream. Similar provision was also contained in the Air Act in respect of persons likely to discharge effluents into the air. Under these Acts, the Board was empowered to issue Consent for Establishment (CFE) and Consent for

Operation (CFO). Before expiry of consents granted initially, the units were required to renew their consents prior to 60 days of its expiry.

During audit, it was found that neither the Board nor the Commerce and Industries Department had the data of actual number of industries running in the State. However, from records provided by the Board, it was noticed that out of total 256 industries (Pharmaceuticals, Hydro-Electric Power, Small-Scale Industries (SSI), Hot-mix Plants, Hotels, etc.), registered with Commerce and Industries Department, Government of Sikkim, 86 numbers of industries did not obtain CFO for 2015-16. Similarly, the number of industries not obtaining CFO, ranged between 13 and 32 during 2012-15. The operation of these industries without any consent not only led to irregular/unauthorised operation but also led to forfeiture of consent fees amounting to ₹ 1.45 crore which could have been used for prevention, control and abatement of pollution. Reasons for non-renewal of consents were not found on records. It was found that the Board had issued show cause notices to only ten industries during 2010-11 to 2014-15 but the Board neither initiated further follow up action nor took any penal actions as per the provisions of the Acts in respect of the defaulting industrial units. The details of consents obtained and consents due with the defaulting period of various categories of industries are given below:

Table 5.3.1

| Category of industries | No. of units | Consent not obtained for | | | | | Outstanding consent fees due to non-realisation (in rupees) |
|----------------------------|--------------|--------------------------|-----------|-----------|-----------|-----------|---|
| | | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | |
| Hydro Electric Powers | 17 | 0 | 4 | 5 | 5 | 7 | 1,07,50,000 |
| Pharmaceuticals | 38 | 0 | 3 | 5 | 5 | 7 | 10,65,000 |
| Hotels | 119 | Figures not available | | | 0 | 39 | 7,09,000 |
| Distilleries and Breweries | 10 | 0 | 2 | 2 | 5 | 7 | 9,30,000 |
| Hot-mix Plants | 18 | 0 | 0 | 0 | 0 | 0 | 0 |
| SSI and others | 54 | 0 | 4 | 12 | 17 | 26 | 10,91,000 |
| TOTAL | 256 | 0 | 13 | 24 | 32 | 86 | 1,45,45,000 |

Source: Board's figures.

Audit further noticed that in 110 cases, there were delays in obtaining consents by various units as given in the table below:

Table 5.3.2

| Year | Below 30 days | 30 to 90 days | 91 to 180 days | 180 days and above | Total |
|----------------------------|---------------|---------------|----------------|--------------------|------------|
| Hydro Electric Powers | - | 07 | 04 | - | 11 |
| Pharmaceuticals | 04 | 03 | 05 | - | 12 |
| Hotels | 13 | 31 | 04 | - | 48 |
| Distilleries and Breweries | 01 | -- | 04 | 01 | 06 |
| Hot-mix Plants | - | 03 | - | - | 03 |
| SSI and others | 01 | 08 | 13 | 08 | 30 |
| TOTAL | 19 | 52 | 30 | 09 | 110 |

Thus, it could be seen from the above tables that the Board had failed to evolve effective monitoring mechanism for timely issuance of consent, realisation of consent fee and follow up action for defaulting units.

In reply, the Board stated that due to absence of penalty clause in the consent fee notification, consents were not renewed in time by the units. However, a proposal to incorporate penalty clause was under process. Further, follow up action for realisation of due consent fees was being taken up by the Board.

In further reply (October 2015), the Board stated that a direction had been issued to initiate penalty provision for late renewal, to include conditions in the consent for information prior to closure of any unit and in the event of failure to inform the Board the fee would be realised from the units.

5.3.9 Water pollution

Water pollution means contamination of water or alteration of physical, chemical or biological properties of water by discharge of various kinds of wastes into water, directly or indirectly, which renders water harmful for public health and health of animals, plants, aquatic organisms, etc.

The Board had set up 14 numbers of water quality monitoring stations on banks of two major rivers of the State, viz. Teesta and Rangit. The Board was collecting samples from these 14 water monitoring stations on monthly basis and its four general parameters were analysed in the Central Laboratory. However, 10 parameters were not being monitored due to shortage of technical manpower. The analysed data was neither posted in the website of the Board nor used for preparation of strategy for water pollution control.

5.3.9.1 Treatment of domestic effluents

Twelfth Schedule under Article 243W of the Constitution of India entrusted urban local bodies with duties of protection of environment and promotion of ecological aspects, which include water supply, sewerage, etc. Further, as per Section 17 (1)(f) of Water (Prevention and Control of Pollution) Act 1974, the Board is required to inspect sewage or trade effluents for their treatment and every authority treating sewage needs to obtain authorisation from the Board.

The WSWSPHED is responsible for construction of STPs for treatment of domestic effluent under directions of the Board. It was observed that out of ten STPs, nine STPs had not obtained Consent to Establish/Consent to Operate from the Board for treatment of effluents. Further, the Board was only issuing notices to WSPHED from time to time without enforcing penal provisions of the Environment (Protection) Acts. This not only led to non-realisation of ₹ 10.00¹ lakh towards consent fees but also granting permission for establishment of these STPs was irregular without obtaining consents.

In reply (October 2015), the Board stated that the concerned Department (WSPHED) had assured to apply to obtain the consent to establish/operate and outstanding fees would also be realised from the Department.

¹ Consent fee due for 10 STPs @ ₹20,000 per year for 5 years.

5.3.9.2 Inadequate treatment of domestic effluents

Scrutiny of the records of the Board and WSPHED revealed that there were thirteen local bodies in the State under the jurisdiction of the Board but there was only one STP functioning in the State at Adampool, Gangtok. The status of domestic effluents generated and treated in these STPs as of March 2015 is detailed in the table below:

Table 5.3.3

Status of town-wise population and generation of sewer and its treatment in STPs

| District with Towns ² | District-wise Urban Population of 2011 census | Sewage generated as per national per capita generation of sewage (@ 121 lt/ day/person) (in mld ³) | Sewage collected (in mld) | Sewer treated in the STPs (in mld) | Sewer being disposed of without any treatment in STPs (in mld) |
|----------------------------------|---|--|---------------------------|------------------------------------|--|
| East | 1,22,487 | 14.82 | 8.00 | 8.00 | 6.82 |
| North | 4,644 | 0.56 | 0 | 0 | 0.56 |
| West | 5,248 | 0.64 | 0 | 0 | 0.64 |
| South | 21,199 | 2.57 | 0 | 0 | 2.57 |
| TOTAL | 1,53,578 | 18.59 | 8.00 | 8.00 | 10.59 |

Source: Board's figure.

It could be seen from the above table that out of 18.59 mld of sewage generated and collected in the State, only 8.00 mld were being treated and the rest 10.59 mld of effluents were being discharged untreated in the rivers through *jhoras* (long drains). Further analysis of records revealed that:

- Sewage in respect of only one town (Gangtok) out of total 13 classified urban towns was treated and for rest 12 urban towns, sewage was discharged off without any treatment.
- Nine new STPs were constructed only in seven towns under two districts, viz. East and South and sewer network had not started yet in six towns in North and West districts.
- Out of these nine STPs (with estimated cost ₹ 1.91 crore), none had been commissioned despite incurring ₹ 1.24 crore due to delay in completion ranging from 39 to 86 months. The delay was attributed to reasons like non-acquisition/availability of land, change in design, increase in span of rainy seasons, shifting of work site to new location, delay in obtaining forest clearance, etc.

Physical verification of the only functioning STP at Adampool, Gangtok revealed that:

- Though WSPHED had installed an inflow meter at the STP, it was not functioning and no out flow meter was installed to measure the quantum of inflow and outflow of sewage effluents. As a result, actual inflow and outflow of sewage relating to capacity of STP could not be ascertained.

² East: Gangtok, Ranipool, Singtam, Rangpo, Pakyong, Rhenock and Rongli. North: Mangan and Chungthang. West: Gyalshing and Soreng. South: Namchi, Jorethang, Melli and Ravangla.

³ Mld = million litres per day.

- During last five years only three inspections were done against prescribed monthly inspections by the officials and the effluent samples were taken only twice during 2014-15.
- There were no engineers having requisite skills (Mechanical/Chemical Engineers) to look after the STP and it was being looked after by one Junior Engineer (Civil) and one Assistant Engineer (Civil).

This indicated that capacity to treat domestic effluents in the State was far from satisfactory. The reasons for not providing STPs in uncovered towns were not furnished by the Board to the Audit.

In reply, the Board stated that untreated sewage effluents were being treated in the septic tanks and the WSPHED was constructing STPs for treatment of sewage. The reply is not tenable as septic tanks were to be connected to STPs for effective treatment of sewage. However, the fact remains that while on the way to physical verification by the Audit team as well as from the social media, it was seen that untreated sewage was being disposed of directly into the water stream at Jalipool which was contaminating river water on which neither WSPHED nor the Board had any control as could be seen from the photographs below:

Image 5.3.1



Image 5.3.2



Disposal of untreated sewage directly into the water stream at Jalipool

In reply (October 2015), the Board stated that sewage effluents generated by the houses which were not connected with the sewage network system were being treated in their own septic tanks. The contention of the Board is not acceptable as it can be seen in the DPRs of the STPs wherein it is clearly mentioned that the untreated sewage wastes are discharged into existing drains which ultimately flows into the river. Besides, many houses have septic tanks along with pit latrines and the effluent from it also gets discharged into river. Some houses do not have soak pits for which highly polluted liquid wastes are being discharge into river directly.

5.3.9.3 Industrial Effluents

Industrial effluent is any waste water generated by an industrial activity. The impact of industrial discharges depends not only on their Biochemical Oxygen Demand (BOD) and the amount of suspended solid material but also on their content of inorganic and organic substances. Water pollution caused by major industries can be controlled at the point of generation by constructing Effluent Treatment Plants (ETPs) for individual industries and

Common Effluent Treatment Plants (CETPs) for clusters of medium and small-scale industries.

Scrutiny of records of the Board revealed that there were 65 water polluting industries in the State. However, physical inspection (15-16 July 2015) of 16 industries revealed that-

- three⁴ industrial units did not have any ETPs.
- two⁵ industrial units were having non-functional ETPs; as a result, trade effluent was not treated.
- It was seen in one⁶ industry that though the industry had ETP, untreated trade effluent was directly drained out outside the industry compound creating risk to health of the nearby habitants. Further, it was seen that domestic wastes of the industry were thrown haphazardly in the compound of the industry creating risk to health of the public as could be seen from the photographs below.
- One industry⁷, a pharmaceutical unit, was running in a small rented building in an unhygienic condition without ETP and entire trade effluent was thrown in the side drain of the road in front of the said rented building.

Image 5.3.3



Non-functional ETP at C G Foods, , Rangpo, and Sheela Foams, Bagheykhola, East Sikkim

Image 5.3.4



Image 5.3.6

Image 5.3.5



Untreated trade effluent being drained out at Micro Labs, Mamring, South Sikkim



Domestic waste thrown near ETP at Micro Labs, Mamring, South Sikkim

⁴ Government Fruit Preservation Factory, Pristine Life science and Mayell and Fraser Distillery.

⁵ CG Foods and Sheela Foam.

⁶ Micro Labs, Mamring, South Sikkim.

⁷ Pristine Life Science, Singtam, East Sikkim.

Image 5.3.7



Image 5.3.8



Rented building in which Pristine Life Science industry was running in an unhygienic condition

Inaction on the part of industry for installation of ETPs as well as non-functioning of ETPs by the industries led to discharge of untreated effluent into the nearby water bodies.

The Board did not issue any direction to the defaulting industries and had not taken any legal action as required under Section 33(1) of the Water (Prevention and Control of Pollution) Act 1974 to ensure adequate treatment of effluents by these industries. Instead, the Board gave consents to industries to operate in usual manner which indicated that the Board had been giving consents without inspecting these industries.

In reply (October 2015), the Board stated that it would conduct field visits of defaulting units and issue stringent directions.

5.3.9.4 Test results of treated water samples

Section 21 of Water (Prevention, Control of Pollution) Act 1974, the Board is required to take samples of water or of sewage or trade effluent for analysis or tests. During audit, the Board could not produce any record in support of test conducted on trade effluent. However, during physical inspections of industries, audit team collected water samples of treated trade effluents of seven pharmaceutical industries and tested these samples in the Board's Central Laboratory for four parameters. The details are given in the following table:

Table 5.3.4

(In mg/litre)

| Sl. No. | Name of industry | Parameters | | | | | | | |
|---------|-------------------|-------------|-------------|-----------------------|-------------|--------------------------------|-------------|------------------------------|-------------|
| | | PH level | | Total Dissolved Solid | | Biological Oxygen Demand (BOD) | | Chemical Oxygen Demand (COD) | |
| | | Permissible | Test result | Permissible | Test result | Permissible | Test result | Permissible | Test result |
| 1 | Sun Pharma | 5.5-9.0 | 7.0 | 500 | 425 | 30 | 30 | 250 | 115 |
| 2 | Unichem Pharma | 5.5-9.0 | 6.5 | 500 | 480 | 30 | 32 | 250 | 240 |
| 3 | Microlab, Mamring | 5.5-9.0 | 6.0 | 500 | 478 | 30 | 34 | 250 | 270 |
| 4 | Zydus Healthcare | 5.5-9.0 | 6.0 | 500 | 419 | 30 | 32 | 250 | 200 |
| 5 | Glenmark Pharma | 5.5-9.0 | 7.0 | 500 | 350 | 30 | 26 | 250 | 145 |
| 6 | Intas Pharma | 5.5-9.0 | 7.5 | 500 | 230 | 30 | 28 | 250 | 145 |
| 7 | Torrent Pharma | 5.5-9.0 | 6.5 | 500 | 430 | 30 | 26 | 250 | 155 |

From above test results, it could be seen that in respect of three industries (Sl. Nos. 2, 3 and 4), BOD level was in excess of permissible limit and in case of one industry (Sl. No. 3), COD was also in excess of the permissible limit. The Board should conduct regular test of treated effluent and take follow up action to ensure effective functioning of ETPs.

While accepting the audit contention (October 2015), the Board stated that they would initiate regular monitoring of the effluents.

5.3.9.5 Handling of Municipal Solid Wastes

As per Section 4(1) of Municipal Solid Waste (Management and Handling) Rules 2000 (MSW Rules) every municipal authority was responsible for the implementation of the provisions of these rules and for any infrastructure development for collection, storage, segregation, transportation, processing and disposal of municipal solid wastes within its territory.

Further, Schedule 1, Rule 4(2 and 3) of the Rules, *ibid* stipulated that municipal authority or an operator of a facility shall obtain authorisation from the Board for setting up waste processing and disposal facility including landfills and comply with the following implementation schedule:

Table 5.3.5

| Compliance Criteria | Schedule |
|---|--------------------------|
| Setting up of waste processing and disposal facilities | By 31.12.2003 or earlier |
| Monitoring the performance of waste processing and disposal facilities | Once in six months |
| Improvement of existing landfill sites as per provisions of these rules | By 31.12.2001 or earlier |
| Identification of landfill sites for future use and making site (s) ready for operation | By 31.12.2002 or earlier |

MSW Rules also provide that the biodegradable wastes shall be processed through biological processes like composting, vermi-composting, etc. and non-biodegradable wastes which could not be recycled shall be disposed of through landfills. It was observed that even after a passage of more than 11 years since the Rules were enforced, the State was yet to have a fully functional integrated MSW treatment plant for disposal of MSW in a scientific manner.

As the data was not available either with the Board or with the Municipal Bodies, the audit calculated figures of generation of MSW as per the national standard of 0.45 kg/day/person based on urban population of the State. Further, there was a wide gap between total MSW generated and treated/disposed of in the State during 2010-15. The status of disposal of MSW in the State during 2010-15 was as under:

Table 5.3.6

| Sl. No. | District (13 towns) | Urban Population based on 2011 census | MSW generated as per national per capita generation of solid waste @ 0.45kg /day/ person. (in Metric Ton per day) | Total capacity of MSWT plant for treatment of waste (in Metric Ton per day) | MSW treated in the MSWT plant (in Metric Ton per day) | MSW disposed through landfills (in Metric Ton per day) | MSW being disposed-off without any treatment in MSWT plant (in Metric Ton per day) |
|---------|------------------------|---------------------------------------|--|--|--|---|---|
| 1 | East | 1,22,487 | 55.12 | 35.00 | 42.00 | Nil | 20.12 ⁸ |
| 2 | North | 4,644 | 2.09 | Nil | Nil | Nil | 2.09 |
| 3 | West | 5,248 | 2.36 | Nil | Nil | Nil | 2.36 |
| 4 | South | 21,199 | 9.54 | Nil | Nil | Nil | 9.54 |
| | TOTAL | 1,53,578 | 69.11 | 35.00 | 42.00 | Nil | 34.11 |

Considering the figures of 69.11 MT MSW generated every day, 34.11 MT (49 per cent) of untreated MSW were dumped in the open every day, which worked out to a huge quantity of 12,450 MT of municipal wastes piled up every year causing environmental degradation and health hazards. Further analysis of records revealed that UDHD had adopted cluster approach with regard to treatment of MSW by establishing two MSW treatment plants at Martam for North and East districts and Sipchu for South and West districts.

Further examination of records of UDHD and physical inspection of these plants revealed that:

- Despite incurring ₹ 2.69 crore on the project setting up of Solid Waste Treatment Plant at Sipchu in South District was still incomplete which was scheduled to be completed in June 2008.
- Even after incurring an expenditure of ₹ 7.60 crore (out of estimated sanctioned cost of ₹ 12.01 crore) on the project 'Landfill sites at Martam', the project was only 65 per cent complete due to slow pace of work which was scheduled to be completed by September 2015.
- Due to non-completion of the project 'Landfill sites at Martam' MSW was being thrown haphazardly here and there at the dumping site and leachates generated from excess wastes dumped at dumping sites were going to ground water.
- MSW Rules 2000 (Management and Handling) also require separation of waste into bio-degradable and non-biodegradable categories right from the point of generation itself. While the bio-degradable MSW was to be converted to compost, non-biodegradable MSW was to be thrown at landfill sites and thereby decreasing the volume of waste to be thrown into landfill sites. It was found that UDHD had not put any mechanism for segregation of MSW as prescribed either at the point of generation or during treatment.
- Rule 23 and 25 of MSW Rules stipulated that both water and ambient air quality in and around landfill sites need to be monitored to ensure that ground water and ambient air quality are not contaminated beyond acceptable limit. However, it was observed that the Board had not been monitoring air and ground water quality in

⁸ Figure arrived at by considering the total capacity of MSWT plant of treatment of waste.

and around the dumping sites. As a result, ill effects of environment pollution could not be ruled out. The photographs given below substantiate the above findings.

Image 5.3.9



Image 5.3.10



Unused landfill site of Solid Waste Management at Sipchu

Image 5.3.11



Image 5.3.12



Garbage being put in the landfill at Sipchu constructed under NABARD funding

Image 5.3.13



Image 5.3.14



Incomplete landfill site at Martam, East Sikkim

The MSW are being thrown haphazardly at the dumping site at Martam

Image 5.3.15



Image 5.3.16



Throwing of un-segregated municipal waste at dumping site at Sipchu, South Sikkim

Thus, the failure on the part of the Board to impress upon the municipalities/UDHD to comply with MSW Rules and not analysing of the reasons for non-compliance to take necessary remedial measures led to MSW being disposed of untreated.

In reply, the Board stated that necessary action will be taken in coordination with the concern Department at the earliest.

5.3.9.6 Effects of water pollution

Shortfalls in effluent treatment in STPs, MSW, CETPs and ETPs in the State have been discussed in the above paragraphs. Poor treatment of effluents before finally discharging them into *jhoras* and rivers adversely affects public health in the State. Polluted water causes water-borne diseases such as gastroenteritis, diarrhoea, hepatitis, typhoid, etc. Incidences of such diseases were seen in the State during the period from 2010-15 as given in the Table below.

Table 5.3.7

| Year | Attention Deficiency Disorder | Hepatitis | Typhoid | Enteric Fever | Total |
|--------------|-------------------------------|--------------|--------------|---------------|-----------------|
| 2010-11 | 26,439 | 575 | 276 | 338 | 27,628 |
| 2011-12 | 30,946 | 519 | 149 | 128 | 31,742 |
| 2012-13 | 36,826 | 770 | 164 | 121 | 37,881 |
| 2013-14 | 33,879 | 512 | 262 | 90 | 34,743 |
| 2014-15 | 32,450 | 339 | 260 | 36 | 33,085 |
| TOTAL | 1,60,540 | 2,715 | 1,111 | 713 | 1,65,079 |

Source: Data furnished by the Health Care and Family Welfare Department.

As may be seen from the above table, the number of water-borne diseases increased from 27,628 in 2010-11 to 33,085 in 2014-15. During the last five years there were a total of 1.65 lakh cases of water borne diseases.

5.3.10 Management of Hazardous Wastes

As per Rule 22 of Hazardous Waste (Management, Handling and Trans Boundary Movement) Rules 2008, occupiers generating hazardous wastes and operators of the facilities involved in disposal of hazardous wastes are required to furnish an annual return to State Board showing details of hazardous wastes generated by them and disposal thereof. Based on returns filed by occupiers/operators, the Board shall prepare an inventory of hazardous wastes within its jurisdiction and compile related information like their recycling, treatment and disposal.

It was seen that Board had not compiled such inventory using the annual returns furnished by the occupiers/operators as on date of audit (July 2015). As there were no Treatment, Storage and Disposal Facilities (TSDFs) available in the State, the hazardous waste was being sent to TSDF at Haldia in West Bengal by the industries. As per the records (pertaining to 25 out of 48 industries generating hazardous wastes) furnished by the Board, 667.04 MTs of hazardous waste was sent to the TSDF, Haldia during 2010-15. Details are given below:

Table 5.3.8

Details of hazardous waste treated/disposed of during 2010-15

(In MT)

| Year | Waste generated | Waste disposed of by TSDF | Un-disposed hazardous waste | Percentage of disposal against total waste generated |
|---------|-----------------|---------------------------|-----------------------------|--|
| 2010-11 | 343.51 | Nil | 343.51 | 0 |
| 2011-12 | 343.51 | Nil | 343.51 | 0 |
| 2012-13 | 343.51 | Nil | 343.51 | 0 |
| 2013-14 | 343.51 | 271.92 | 71.59 | 79 |
| 2014-15 | 347.12 | 347.12 | Nil | 100 |
| | 1,721.16 | 619.04 | 1,102.12 | 36 |

The above table revealed that during last five years 1,721.16 MT of hazardous wastes were generated by the test checked industries, out of which only 619.04 MT was disposed of at TSDF and the remaining 1,102.12 MT (64 *per cent*) of untreated hazardous waste were not transported through TSDF and there were no records available with the Board as well as with industries as to how these wastes were disposed of. It is likely that the wastes lie around in unsafe condition which would raise the toxicity of the environment.

Further, Rule 7 of the Hazardous Wastes (Management, Handling and Trans boundary Movement) Rules, 2008 provides that the occupiers, recyclers, re-processors, re-users and operators of facilities may store the hazardous wastes for a period not exceeding ninety days and shall maintain a record of sale, transfer, storage, recycling and reprocessing of such wastes and make these record available for inspection. However, the Board may extend the said period in certain conditions. In the case of failure to comply, the Board may suspend or cancel the authorisation under Rule 6 of Hazardous Waste (Management, Handling and Trans-boundary Movement) Rules 2008.

While doing physical inspection (15-16 July 2015) of industries it was seen that most of these industries kept huge quantity of hazardous waste/sludge which had accumulated for more than ninety days, that was neither disposed of in time nor any extension of time was sought from the Board. The photographs below show accumulation of hazardous waste/sludge.

Image 5.3.17



Image 5.3.18



Sludge/Hazardous waste kept openly at CG Foods, and at Zydus Healthcare, Bagheykhola, East Sikkim

Image 5.3.19



Image 5.3.20



Sludge kept in haphazard manner in the compound of Sikkim Agro Chem, Majhitar, East Sikkim

In reply (June 2015), the Board stated that considering merits of each case the Board may extend the storage period under the Act.

In further reply (October 2015), the Board stated that the accumulation of hazardous waste generated by the pharmaceuticals was because of non-lifting of waste by Haldia based TSDF plant due to expiry and non-renewal of MOU between West Bengal and Sikkim. However, reply is not tenable as records in support of contention of the Board were not made available to audit.

5.3.11 Bio Medical Waste

As per Rule 4 of the Bio-Medical Waste (Management and Handling) Rules, 1998, it is duty of occupier of an institution generating bio-medical waste to take all steps to ensure that such waste is handled without any adverse effect to human health and environment.

5.3.11.1 Health Care Facilities (HCFs) functioning without valid BMW authorisation

As per the Notification dated 7 May 2012 and in exercise of the power conferred under Sub-rule (3) of Rule 8 of the Bio-medical Waste (Management and Handling) Rules 1998, occupier of an institution generating, collecting, receiving, storing, transporting, treating, disposing and handling bio-waste in HCFs had to obtain authorisation from the Board for which an occupier/operator had to pay fee as fixed by the Board according to various types of HCFs for grant of authorisation.

It was observed that out of a total of 69 HCFs in the State, 49 to 62 HCFs⁹ did not obtain any BMW authorisations during period under performance audit. Further, it was seen that during the same period, 20 HCFs obtained the authorisation belatedly. The irregular operation of HCFs without any authorisation not only led to non/short realisation of authorisation fee amounting to ₹ 11.65 lakh but also left the scope of these HCFs working without prescribed norms leading to possibility of spreading of diseases due to improper treatment and disposal of BMW.

⁹ 62 number of HCFs in 2010-11, 60 number of HCFs in 2011-12, 56 in 2012-13, 53 in 2013-14, 52 in 2014-15 and 49 in 2015-16.

5.3.11.2 Health Care Facilities (HCFs) functioning without BMW treatment facilities

As per schedule I of Rule 5 of the Bio-medical Waste (Management and Handling) Rules 1998, every occupier shall set up requisite BMW treatment facilities like incinerator, autoclave, microwave system, shredders, etc. for treatment of waste or ensure requisite treatment of waste by having a tie up with a common BMW treatment facility. It was observed that no common BMW treatment facility existed in the State. Audit of records revealed that most of HCFs were not complying with above conditions as given in table below:

Table 5.3.9

| Year | Total no. of HCFs | No. of HCFs submitting Annual Reports to SPCB | Status of treatment equipment in the HCFs | | | | | | | | | | | |
|---------|-------------------|---|---|-----------|----------|------------|-----------|----------|------------|-----------|----------|-----------|-----------|----------|
| | | | Incinerators | | | Autoclaves | | | Micro-oven | | | Shredders | | |
| | | | Required | Available | Shortage | Required | Available | Shortage | Required | Available | Shortage | Required | Available | Shortage |
| 2010-11 | 48 | 34 | 6 | 6 | 0 | 34 | 1 | 33 | 34 | 4 | 30 | 6 | 1 | 5 |
| 2011-12 | 48 | 14 | 6 | 6 | 0 | 14 | 1 | 13 | 14 | 4 | 10 | 6 | 1 | 5 |
| 2012-13 | 48 | 15 | 6 | 6 | 0 | 15 | 1 | 14 | 15 | 4 | 11 | 6 | 1 | 5 |
| 2013-14 | 69 | 24 | 6 | 6 | 0 | 24 | 9 | 15 | 24 | 6 | 18 | 6 | 11 | - |
| 2014-15 | 69 | 22 | 6 | 6 | 0 | 22 | 5 | 17 | 22 | 2 | 20 | 6 | 1 | 5 |

Source: Departmental figures.

It could be seen from the table above that the total numbers of HCFs during 2010-11 to 2012-13 were 48 which rose to 69 from 2013-14. However, it was seen that during the years 2010-11 to 2014-15, only 34, 14, 15, 24 and 22 HCFs submitted their annual reports in the respective years to the Board and rest HCFs did not submit their annual reports/returns for onward forwarding to the CPCB. Further, all these HCFs were not having requisite BMW treatment facilities as per norms throughout the period of audit, viz. 13 to 33 HCFs were running without any autoclave during the period of audit, 10 to 30 HCFs were not having any micro-oven and 0 to 5 HCFs were operating without any shredders. Under the circumstances, spreading/transmission of diseases could not be ruled out.

The Board did not have records of total BMW generated by 69 HCFs in the State; however, the Board had partial records of total quantity of BMW generated from HCFs which had submitted annual reports during the period under audit.

Compilation from annual reports revealed that total BMW generated during the year 2010-15 was around 606.27 MT (quantity would have been much higher had the Board furnished total figure of BMW generated in all the HCFs) and its treatment was not done as per the Act as BMW treatment equipments were insufficient to treat it properly. The Board failed to issue directions or initiate legal action under the EP Act against defaulting HCFs.

5.3.11.3 Physical verification of Health Care Facilities (HCFs)

The Healthcare, Human Services and Family Welfare Department informed that for the purpose of treatment and disposal of bio-medical waste, State Hospitals and District Hospitals were required to have Incinerator, Microwave Disinfection Machine, Autoclave, Shredder, Needle destroyer and Sharp Pit and Public Health Centers were

required to have Microwave, Disinfection Machine, Autoclave, Needle destroyer and Sharp Pit.

Availability of BMW treatment facilities were physically verified by Audit (June-July 2015) in some of HCFs and it was seen that:

- District Hospital, Namchi was not having a Shredder;
- STNM Hospital, Gangtok was not having Autoclave;
- Microwave Disinfection Machine was out of order and Sharp Pit was kept open;
- Central Referral Hospital, Tadong was not having Shredder and Microwave Disinfection Machine while the Sharp Pit was under construction;
- PHC, Temi was having two Autoclaves, one of them was not working for want of repair and the other one was not installed;
- PHC, Jorethang was having uncovered Sharp Pit;
- PHC, Rhenock was having idle shredder for want of three phase electricity supply.

The following photographs show the above deficiencies:

Image 5.3.21



Image 5.3.23



Under construction Sharp Pit at CRH, Tadong

Image 5.3.22



Image 5.3.24



Unused Autoclaves at PHC, Temi

In reply (October 2015), the Board stated that the necessary actions for compliance would be taken in coordination with the concerned Department.

5.3.12 Air Pollution

Air pollution occurs due to increase in the concentration of foreign particles like Respirable Suspended Particulate Matter (RSPM), Sulphur Dioxide (SO₂), Nitrogen Dioxide (NO₂), Carbon Monoxide (CO), Lead, Ozone depleting substances, etc. which are harmful to living organisms.

Increased air pollution adversely affects human health by causing respiratory diseases like asthma, bronchitis, etc. For grant of consent under the Air Act 1981 it was mandatory before commissioning of the smoke emitting plants (HEP, Pharmaceuticals, Distilleries, Stone crushers, etc.) that infrastructural facilities for monitoring of stack emissions and ambient air quality, emission control instruments and a well-equipped laboratory should be in place.

5.3.12.1 Inadequate monitoring of air quality

The Board had identified seven¹⁰ numbers of sites for air quality monitoring stations across the State but had not established any air quality monitoring stations as on date of Audit. Though the CPCB prescribed (April 2011) a list of twelve important air quality parameters¹¹ to be analysed by monitoring laboratories, the Board had procured equipments for monitoring of only four air quality parameters¹². The Board had not conducted any studies to know whether the levels of 12 parameters were within permissible limit as prescribed under National Ambient Air Quality Standards (NAAQS) and to identify the causes for air pollution. It was further observed that under National Air Quality Monitoring Programme, the Board had procured (May 2011) all machines and equipments at a cost of ₹ 30.77 lakh with assistance of CPCB (₹ 26.89 lakh) for establishment of seven ambient air quality monitoring stations in the State. Further, despite repeated requests and reminders from CPCB for immediate installation and commissioning of these stations and furnishing of air monitoring data, the machines and equipments had not (July 2015) been installed and put to operation. Scrutiny further revealed that after purchase of above machines and equipments, the Board started (June 2011) proposal for recruitment of technical staff for operating these stations which had not been finalised so far despite assurance from CBCB that all recurring expenditure on operation and maintenance of these stations including salary would be borne by the CPCB. The machines and equipments were kept idle/uninstalled at Central Laboratory as seen from the following photographs:

¹⁰ Namchi, Jorethang, Mangan, Chungthang, Singtam, Rangpo and Pelling.

¹¹ SO₂, NO₂, PM10, PM 2.5, Ozone, Lead, Carbon Monoxide, Ammonia, Benzene, Benzo, Arsenic and Nickel.

¹² NO₂, SO₂, SPM and RSPM.

Image 5.3.25



Image 5.3.26



Machines and equipments kept idle/uninstalled at Central Laboratory, Gangtok

In reply, the Board stated that at present it was able to monitor only four parameters of air pollution and process for procurement of infrastructure (machines and equipments) to monitor all parameter as per NAAQSs was under progress. Further, it is also mentioned that the Board is in the process of installation of seven air monitoring stations in important towns for monitoring all the 12 parameters as per National standard. However, the fact remains that the monitoring of only four parameters of air pollution, viz. NO₂, SO₂, SPM and RSPM could only do a partial evaluation of the quality of air and in absence of such complete evaluation of the air quality, remedial measures could also not be ascertained.

5.3.12.2 Stone Crushers operating without obtaining consent

As per Schedule 1 to Environment (Protection) Rules 1986, various parameters and standards for consent to stone crushers were prescribed for preventing and abating environmental pollution.

It was noticed that there were 75 stone crushers registered for consent to operate from the Board. However, actual number of stone crushers operating in the State were not known as the Board did not have inventory of these crusher machines. From records made available to audit, it was seen that during the period of PA, three to 23 stone crushers were operating without any consents. It was observed that Board renewed consent to operate of even those crusher machines which did not deposit their consent fees due for the previous years. The reasons for renewing consents despite non-payment of previous dues was not on record. It was also noticed that the Board gave consent to 18 stone crusher operators who had belatedly applied for renewal of consent ranging from 20 to 80 days.

Further, pollution created due to particles generated by stone crushing units was not monitored by the Board with regard to compliance of the standards for stone crushers in the State. The Board was to analyse samples for Suspended Particulate Materials (SPM) twice a month throughout the year for each stone crusher, drawing samples at a distance of 40 metres from an isolated unit as well as from a unit located in a cluster in order to ensure that presence of SPM was within prescribed limit. However, the Board did not conduct regular inspections of stone crushers and never analysed air samples in the

vicinity of any of the stone crushing unit nor issued notices/directions to defaulting units. The Board also did not take any legal action against the erring units under environmental Acts/Rules.

Thus, allowance to operate these crusher machines without consent resulted in free blowing of dust/sand particles in air which could result in occurrence of various health hazards. Further, non-realisation of consent fees also led to loss of Government revenue to the extent of ₹ 20.65 lakh during the period under audit.

While accepting the audit observation, the Board replied (October 2015) that the points raised by the audit had been noted for adherence in future. Further, the Board stated that due to lack of manpower it could not conduct the inspections and the units were required to carry out the monitoring through third party accredited laboratories.

5.3.12.3 Non-monitoring of emission from Diesel Generator sets

As per Sl.No.95 of Schedule 1 of Environment (Protection) Rules 1986, which states that for the purpose of protecting and improving quality of environment and preventing and abating environmental pollution, the standards for emission or discharge of environmental pollutants from the industries, operations or processes shall be as specified in Schedule I to IV.

The Board did not have any data in respect of total number of Diesel Generator (DG) sets with a capacity of 15 KVA and above available in the State. However, from examination of the consent records available with the Board, DG set operators were 125 in number in the State. The Board had fixed consent fee of ₹ 5,000 per year for each DG set. It was seen that the Board was realising consent fee towards CFO from those DG set operators who were applying for CFO. However, the Board did not have any actual figure of the DG sets. There was also a delay in applying for renewal of consent by the 39 DG set operators ranging between 16 and 235 days.

Further, it was also found that the Board was granting renewal of consent to the operators without clearing their outstanding consent fees due for the previous years. No measures to control the pollution were ever taken by inspecting the units by the Board as no such records could be made available to the audit.

Thus, operation of DG sets without consent was not only irregular but also led to non-realisation of consent fee of ₹ 21.50 lakh.

While accepting the fact, the Board replied (October 2015) that the points raised by the audit has been noted for initiation of necessary action.

5.3.12.4 Vehicular Pollution

Monitoring of air pollution is the responsibility of the Board under the Air Act, while the control of vehicular pollution is vested with Transport Department under Central Motor Vehicle Act, 1988 and Rules 1989. The Board was to lay down the standards for automobile emission under Section 17(1)(g) of the Air Act and the State Government in consultation with the Board was to instruct the Transport Department to ensure compliance of the standards so laid down.

Motor Vehicle Division (MVD) under transport department was directly responsible for implementation of MV Acts and Rules. As per Rule 115 of MV Rules 1989, idling CO (Carbon Monoxide) emission limits prescribed by STA for vehicles by volume were 4.5 *per cent* and 3 *per cent* respectively. There was a growth of 43 *per cent* vehicles in Sikkim from 47,612 vehicles in 2011-12 to 68,162 vehicles in 2014-15.

In Sikkim, only two numbers of private Auto Emission Testing Centres (AETCs) were authorised by MVD till 2014-15 for routine check of vehicular emission and issuing Pollution Under Control (PUC) certificate under MV Rules. The year-wise total number of vehicles required to do auto emission test and PUC certificates issued by two AETCs is given below:

Table 5.3.10

| Year | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|--|----------------|----------------|----------------|----------------|----------------|
| No. of registered vehicle | 47,612 | 51,881 | 60,848 | 64,574 | 68,162 |
| PUC to be issued as above (<i>twice in a year</i>) | 95,224 | 1,03,762 | 1,21,696 | 1,29,148 | 1,36,324 |
| PUC certificate issued by firm | 9,008 | 9,084 | 8,619 | 9,692 | 9,846 |
| Vehicles running without PUC (<i>percentage in brackets</i>) | 43,108 (91) | 47,339 (91) | 56,539 (93) | 59,728 (92) | 63,239 (93) |
| Percentage of emission tested | 9 | 9 | 7 | 8 | 7 |

Source: Annual Reports of Transport Department (Motor Vehicle Division)

It can be seen from the table above that the percentage of PUC issued to vehicles were very low and ranged between seven *per cent* and nine *per cent*. Further, records relating to vehicles detected with emitting excessive smoke and required to undergo re-test for issue of fresh PUC certificates and polluting the environment were not available. It was found that neither the Board had ever issued any advice for setting up vehicular pollution control laboratories nor these laboratories were set up by the MVD. Besides, surprise checks of vehicles on roads by expert monitoring team attached to each laboratory were to be conducted. However, no such surprise checks were conducted. Thus, monitoring of vehicle emission norms could not be carried out.

In reply (October 2015), the Board stated that the necessary action for compliance would be taken in coordination with the concerned Department.

5.3.13 Laboratory Management

As per Section 17(2) of Water (Prevention and Control of Pollution) Act 1974 and Air (Prevention and Control of Pollution) Act 1981, the Board may establish or recognise a laboratory or laboratories to enable the Board to perform its functions including the analysis of samples of water from any stream or well or of samples of any sewage or trade effluents and stack emission.

5.3.13.1 Lack of infrastructure facilities and manpower at laboratories

The State Board may establish or recognise laboratories for analysing water/air samples to enable the Board to perform the functions stipulated in those Acts. Guidelines issued (June 2008) by CPCB for recognition of environmental laboratories under EP Act by Central Government stipulated certain minimum standards, which included availability of capacity/equipment for conducting certain minimum air/water quality tests and

recognition/accreditation by the National Accreditation Board for Testing and Calibration of Laboratories (NABL).

Audit observed that the Board had established only one Central Laboratory. The laboratory had neither been recognised under the EP Act by Central Government nor recognised/accredited by the National Accreditation Board for Testing and Calibration of Laboratories (NABL). The Laboratory did not have adequate facilities even for a minimum of five essential group tests, viz. physical, inorganic, organic, microbiological and toxicological tests for water analysis. For air analysis, the laboratory must have facilities for the first four of the above tests and an Environmental Laboratory should also provide for biological tests, characterisation of hazardous waste and soil/sludge/sediment/solid waste analysis. It was, however, noticed that the laboratory did not have the capacity for conducting all the mandatory tests as out of 37 water test analysis equipments, only 14 equipments were available in the laboratory. Similarly, out of 16 equipments for air stack test analysis, only two equipments were available in the laboratory.

The laboratory either did not have most of the mandatory equipments or had non-functional equipments. As per norms (February 1996), the Board was required to collect water and stack samples and report the results of the analysis to the CPCB, but it was found that the Board had not kept any record in respect of number of samples collected and reports analysed. Further, it was found that laboratory also had shortage of three technical staff as against the norms prescribed by CPCB. The Board did not have any air stack analysis laboratory till the date of audit and air testing machines which were procured four years back were still lying in the space of water testing laboratory. The Central Laboratory was also in very poor condition as can be seen from the following photographs:

Image 5.3.27



Image 5.3.28



Pitiable condition of the Central Laboratory

In reply, the Board stated that a proposal was being submitted for recognition of the laboratory. Further, the Board had submitted a comprehensive proposal on requirement of lab equipments to MoEF for financial support. However, the fact remains that the SPCB was yet to be recognised under the EP Act by Central Government and was also not recognised/accredited by the National Accreditation Board for Testing and Calibration of Laboratories (NABL). Further, the laboratory needed to be equipped with necessary equipments.

5.3.14 Management of Plastic Wastes

As per Rule 3 of the Plastic Waste (Management and Handling) Rules 2011, the concerned municipal authorities are responsible for ensuring safe collection, storage, segregation, transportation, processing and disposal of plastic waste.

As per data available with the Board, there was no plastic manufacturing/recycling unit and there were also no registered plastic collection centres in the State. Moreover, the Board did not have the actual information regarding generation, segregation, collection and disposal of plastic in the State. In the absence of such data, the quantum of plastic waste generated could not be ascertained as a result of which the enormity of problem and related remedial measure could not be determined.

In reply, the Board stated that process for management of plastic waste was being initiated.

5.3.15 Management of e-wastes

Ministry of Environment and Forest, GOI vide gazette notification¹³ enacted the e-waste (Management and Handling) Rules 2011 with the primary objective of managing e-waste generated in the country in an environmentally friendly manner. These Rules came into force since May 2012. As per the Rules, e-waste consists of “waste electrical and electronic equipment, whole or in part or reject from their manufacturing and repair process, which are intended to be discarded”. The e-waste falling under this category cannot be disposed of along with the MSW; instead, the Rules stipulate that it should be channelised to authorised collection centres or registered dismantlers or recyclers.

However, audit observed that there were no authorised collection centres or registered dismantlers or recyclers in the State, except some initiation taken by the Department of Information Technology in co-ordination with other departments in this direction. Further, it was seen that in absence of any registered e-waste dealer and authorised collection centre in the State, e-waste was being thrown by generators of e-waste along with MSW at the MSW dumping sites as could be seen from the photographs below:

Image 5.3.29



Image 5.3.30



e-waste thrown at municipal waste dumping site at Sipchu

¹³ Gazette Notification No.1125 (E) dated 14 May 2010, Extraordinary Part II, Section 3, sub-section(ii).

Thus, failure in establishing authorised collection centres in the State for handling e-waste generated was fraught with risk of creating environmental hazards as e-waste contained cadmium, lead oxide, mercury, polychlorinated biphenyls, etc. which are very harmful for human health and environment.

In reply, the Board stated that process for management of e-waste was being initiated.

5.3.16 Pollution from Slaughter Houses

Standards for discharge of effluents from slaughter-houses have been laid down and notified under Sl.No.50 of Schedule I of the Environment (Protection) Act 1986. Abattoirs generally use large quantities of water for washing meat and cleaning processing areas. CPCB had prescribed (January 2001) that waste water discharged from slaughter-houses should be treated appropriately to meet the prescribed standards. Discharge of untreated effluents from these slaughter houses could result in increase in pathogens which may percolate and contaminate groundwater.

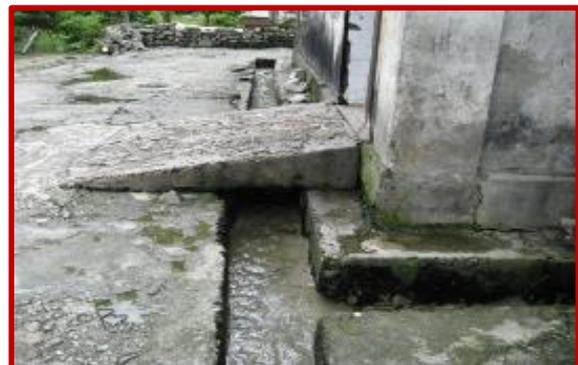
Scrutiny of the records revealed that there were 11 slaughter houses in the State. Out of these, 10 were functioning without any consent from the Board and had not even applied for the consents and only one at Majhitar, East Sikkim was functioning with the valid consent from the Board. Further, it was found that these slaughter houses were functioning without any ETPs and discharging sewage into municipal drains/nearby water bodies/lands, causing water pollution and increasing the risk to public health. Further, there were no arrangements for safe disposal of solid waste generated in these slaughter houses. Till date of audit, only five slaughter houses were functional and six slaughter houses were closed since September 2014. The Board also failed to realise ₹ 8.80 lakh of consent fees from these slaughter houses.

The Board stated that the Slaughter House at Majhitar, East Sikkim which was under the control of Animal Husbandry and Veterinary Services Department, though was not having Effluent Treatment Plant but was having Septic Tank for effluents of the Slaughter House. However, physical inspection (16 July 2015) of the said Slaughter House revealed that the Slaughter House was not having any Septic Tank and entire effluent of the Slaughter House was directly discharged into the river Teesta through drains as could be seen from the photographs below:

Image 5.3.31



Image 5.3.32



Effluent of the Slaughter House, Majhitar directly going in the drain

Though the Board has power to issue directions under the provisions of Water Act to violators of environmental laws including the power to direct closure of any industry, operation or process, it did not issue any directions to these slaughter houses.

In reply (October 2015), the Board stated that it had already issued directions to the Animal Husbandry Department, Government of Sikkim to comply with the norms governing the slaughter houses.

5.3.17 Public Awareness Meetings and Advertisement

According to Section 17 (1)(e) of Water (Prevention and Control of Pollution) Act 1974, the Board is required to collaborate with Central Board in organising mass awareness programme relating to prevention, control and abatement of water pollution. It was seen from records that the Board had given very little emphasis on conducting of public awareness programmes to encourage the citizens regarding environmental issues. Regular meetings at quarterly intervals with representatives of Local Residents and Welfare Associations and NGOs were also not held. Further, the Board also needed to conduct awareness programmes by publishing pamphlets, appeal in newspapers, etc. However, it was found that the Board spent ₹ 42.20 lakh during the period 2010-15 for conducting some awareness programmes but there were no written records/documents of meetings/activities held available with the Board. In the absence of these records, the actual number of public awareness meetings held could not be ascertained. Further, the Board had not ever published any study/research paper till date of audit (August 2015).

As the Board could not produce records/documents of meetings/activities held, the Audit team, in order to assess public awareness on environment pollution in the State, prepared questionnaires for survey on the awareness of environment pollution in the State from the common citizens. The questionnaires were uploaded in the web sites as well as advertised in the local newspapers seeking public responses but the obtained responses were very poor. Hence, survey was taken up independently by the audit team in two selected districts (East and South) with a sample size of 157 persons from different classes of society like teachers, students, farmers, contractors, etc. The analysis of the feedback obtained from survey revealed the following points:

- Even though most of the people were aware of Pollution Control Board (around 72 *per cent*) but the people did not know the functions and activities of the Pollution Board (64 *per cent*) and the common citizen never approached SPCB (not even one *per cent*) for environmental issues;
- People had a general idea of air pollution, water pollution and noise pollution. As per the survey, the main reasons behind air pollutions were due to smoke emitting from vehicles, burning of plastic and emission of smoke from industries. The main reasons for water pollutions were leakage of sewage waste, dumping of garbage, improper drainage system, etc. The noise pollution was caused due to the movement of heavy vehicles, blowing of horns and loudspeakers;

- Majority of people (i.e. around 60 *per cent*) had no fair idea of bio medical waste and its sources and treatments;
- Around 52 *per cent* of people did not have knowledge about the Municipal Solid Waste and its sources and treatments; 66 *per cent* people did not know about the e-Waste and its treatment and 75 *per cent* people did not have any idea about the Battery Waste and its treatment;
- Though the State had two MSW Treatment Plants in South and East Districts, around 70 *per cent* of people were not aware of these Treatment Plants and 64 *per cent* of people were not aware of Sewage Treatment Plants and Effluent Treatment Plants in the State;
- Around 61 *per cent* of people had never heard of any Environment Education Programme conducted by State Government/Pollution Board or any other Agency. However, most of the environment education related programmes were conducted on Environment Day celebration in the schools and not by the SPCB.
- Most of the people (90 *per cent*) surveyed had no idea about the categorisation of industries.

Thus from the analysis of survey conducted by the audit team, it was observed that the SPCB had failed to create awareness among the common citizens on the environment issues such as the activities of the Board, different types of wastes generated and its sources; various types of treatment plants in the State, conducting of environment education programmes by the Board and categories of polluting industries in the State.

Audit objective-2:

Whether monitoring by the Board of the compliance to Acts, Rules and conditions by the stakeholders was efficient and effective?

5.3.18 Compliance mechanism

As per provisions of various Rules made under Environment (Pollution) Act, the Board may cancel or suspend authorisation/registration granted if there is failure to comply with any of the conditions by the authorised persons/registered manufacturer, recycler or dismantler. The Board may also issue directions to the defaulting persons during the course of suspension and failure to comply with or contravention of any provision or orders or directions issued, shall entail imprisonment and/or fine.

However, it was seen that though the Board stated that during inspections, non-compliance was being monitored in the industries, no such inspection reports were available with the Board and even inspections of the industries were also very few in number. Notices and directions were being drafted by the hired legal person/general staff available with the Board and not by the law/ technical division as no such division existed. Though only one direction for closure of an industry was issued during the period under PA, no penalty was imposed on that industry. It was also found that though the

Board had issued 10 show-cause notices to various industries, their follow-up actions were not taken by the Board.

Further, in the physical verification it was seen that though the 'Pristine Life Science, Singtam', a pharmaceutical industry, and 'Mayell and Fraser, Bagheykhola', a brewery, were not having any ETP, consents to operate were being renewed every year by the Board with condition to have ETP with Zero Liquid Discharge (ZLD). This showed that the industries had not been complying with the directions and despite this, the Board had been renewing consents without physical inspection of the industries.

While accepting the fact, the Board replied (October 2015) that the points raised by audit had been noted and it was prepared to carry out prior inspection before renewal of consents in further instances.

5.3.19 Non-submission of Environmental Audit Reports (EARs)

As per Notification issued by GOI in March 1992, every industry requiring consent under Air Act 1981 or Hazardous Waste (Management and Handling) Rules 1989 shall submit an EAR for the preceding financial year to the State Board by 15 May every year, indicating the quantity of pollutants generated.

It was found that out of total of 55 numbers of industries (HEPs and Pharmaceuticals), which were registered with Commerce and Industries Department, only 16 industries submitted EARs and other 39 industries to whom consents were granted by the Board had not submitted their EARs. The Board, despite this violation, had not initiated any action against the erring industries. In the absence of the EARs, the quantity of pollutants released by these industries to the atmosphere was not ascertainable by the Board.

The Board replied (October 2015) that on the basis of audit observation it had directed all the industries to comply with the requirements of submission of environmental audit reports without further delay.

Audit objective-3:

Whether fund management by the Board was efficient to secure optimum utilisation?

5.3.20 Financial Management

5.3.20.1 Financial resources of the Board

The main sources of income of the Board were contributions made in the form of grants-in-aid by the State/Central Governments including CPCB, fees collected while granting Consent for Establishment/Operation (CFE/CFO) and their renewals under Air and Water Acts, sample analysis fees, Bio-Medical Waste Management authorisation fee, etc.

5.3.20.2 Budget and Expenditure

Under Section 38 of the Water Act, the Board shall, during each financial year, prepare a budget in respect of the ensuing financial year showing the estimated receipt and expenditure. It was noticed that the Board was not preparing any budget estimate to plan

its resources (funds). However, expenditure was incurred by the Board in an *ad-hoc* manner. The total funds received and expenditure incurred by the Board during last five years is shown in table below:

Table 5.3.11

(*₹ in lakh*)

| Year | Opening Balance | Funds received | | | Total funds available | Expenditure incurred | Percentage of expenditure incurred | Closing balance | Percentage of savings |
|--------------|-----------------|----------------|---------------|-----------------|-----------------------|----------------------|------------------------------------|-----------------|-----------------------|
| | | GOI | State | Other | | | | | |
| 2010-11 | 68.78 | 26.89 | 11.00 | 265.76 | 372.43 | 242.67 | 65 | 129.75 | 35 |
| 2011-12 | 129.75 | 32.00 | 28.62 | 225.83 | 416.20 | 193.65 | 47 | 222.55 | 53 |
| 2012-13 | 222.55 | 86.00 | 15.41 | 152.77 | 476.73 | 112.82 | 24 | 363.91 | 76 |
| 2013-14 | 363.91 | Nil | Nil | 222.55 | 586.46 | 117.48 | 20 | 468.99 | 80 |
| 2014-15 | 468.99 | Nil | 54.08 | 180.25 | 703.32 | 135.17 | 19 | 568.15 | 81 |
| TOTAL | | 144.89 | 109.11 | 1,047.16 | | 801.79 | | | |

Source: Audited Annual Accounts of the SPCB.

Further, the year-wise break ups of expenditure under different heads by the Board during the last five years are given in the table and chart below:

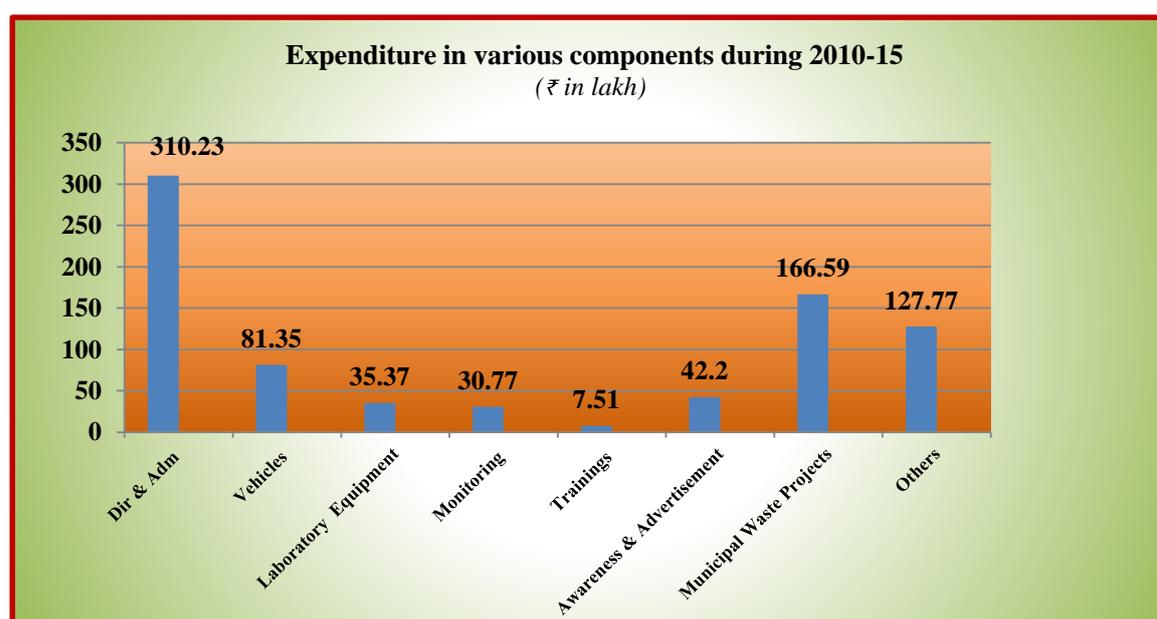
Table 5.3.12

(*₹ in lakh*)

| Year | Total funds available | Expenditure incurred | | | | | | | | | | | Savings over total funds available | |
|--------------|-----------------------|----------------------|--------------|------------------|----------------|--------------|-------------|----------------------------|---|--------------|-------------|---------------|------------------------------------|-------------------|
| | | Dir & Adm. | Vehicles | | Lab Equipments | Monitoring | Trainings | Awareness & Advertisements | MSW Projects, beautification of bird park, Hydel Power Projects, Waste Water Management (WWM) | | | | | Total expenditure |
| | | | Purchase | Running expenses | | | | | MSW project | HEPs | WWM | Others (misc) | | |
| 2010-11 | 372.43 | 52.06 (21) | Nil | 4.75 (2) | 9.43 (9) | Nil | 0 (0) | 13.56 (6) | 66.25 | 28.69 | 9.09 | 58.85 | 242.67 (65) | 129.75 (35) |
| 2011-12 | 416.20 | 55.90 (29) | 17.13 (9) | Nil | 2.74 (1) | 30.77 (16) | 0 (0) | 5.91 (3) | 25.78 | 36.78 | Nil | 18.64 | 193.65 (47) | 222.55 (53) |
| 2012-13 | 476.73 | 51.31 (46) | 25.55 | 1.09 | 3.48 (3) | Nil | 1.20 (1) | 2.61 (2) | Nil | Nil | Nil | 27.58 | 112.82 (24) | 363.91 (76) |
| 2013-14 | 586.46 | 75.81 (65) | Nil | 9.64 (8) | 18.87 (16) | Nil | 0.10 (1) | 2.54 (2) | Nil | Nil | Nil | 10.52 | 117.48 (20) | 468.98 (80) |
| 2014-15 | 703.32 | 75.15 (56) | 12.34 (9) | 10.85 (8) | 0.85 (1) | Nil | 6.21 (4) | 17.58 (13) | Nil | Nil | Nil | 12.19 | 135.17 (19) | 568.15 (81) |
| TOTAL | | 310.23 | 55.02 | 26.33 | 35.37 | 30.77 | 7.51 | 42.20 | 92.03 | 65.47 | 9.09 | 127.78 | 801.79 | |

(Source: Audited Annual Accounts of the SPCB); Note: Figures in brackets indicate percentage

Chart 5.3.2



From the above table and chart it could be seen that utilisation of funds by the Board against the available funds was poor and it ranged between 19 and 24 *per cent* during 2012-13 to 2014-15. Poor utilisation of funds was attributed mainly due to imbalanced spending as could be seen that funds during 2010-11 and 2011-12 were utilised mainly for MSW and HEPs leaving other items like awareness, training, etc. with less expenditure. Reasons for poor utilisation of funds were not on record.

Further, the Board had not given emphasis on inspections and monitoring (except in 2011-12) of the industries and similarly only a meagre amount was spent on awareness drives, advertisement and trainings.

While accepting the points raised by audit, the Board stated (October 2015) that it had placed the budget before the Board Members in September 2015 and had also obtained approval of the same.

5.3.20.3 Non realisation of Water Cess by the Board

As per Rule 3 of the Water (Prevention and Control of Pollution) Cess Act 1977, enacted by Parliament, water cess is to be collected from the State Industries and Municipalities by the Board and remitted to the Central Government.

Scrutiny of records revealed that the Board was not collecting Cess from the industries/municipal bodies under Water Cess Act 1977. The water cess as calculated from the 71 test checked files of different industries by the audit revealed that the WSPHED supplied 7,88,61,900 kilo litre (@ 1,57,72,380 kilo litre per year) water for domestic consumption, hospitals, etc. and the industries utilised 4,37,67,205 kilo litre (@ 87,54,747 kilo litre per year) of water for the industrials uses. The total water cess amounted to ₹ 59.54 lakh (₹ 43.77 lakh from test checked industries at the rate of ₹ 0.10/kilo litre and ₹ 15.77 lakh from the WSPHED at the rate of ₹ 0.02/kilo litre) which remained to be realised. Further, the details of consumption of water by the HEPs were not furnished by the Board to audit and hence could not be examined.

Failure to collect water cess from users resulted in shortfall in income amounting to ₹ 59.54 lakh to the Board as the amount of cess apportioned to State Board by GOI depends on the amount collected in that State. Thus, amount to that extent was not available to the Board for its activities. Though the Water Cess Act provides that non-payment of water cess attracts levy of interest (two *per cent* per month), penalty (up to an equal amount of arrears) and imprisonment (up to six months), the Board failed to take initiatives for effective implementation of Water (Prevention and Control of Pollution) Cess Act, 1977.

While accepting the audit contention, the Board replied (October 2015) that the points raised by the audit had been discussed thoroughly in the Board Meeting and all the members of the Board agreed the proposal unanimously to implement the Water Cess Act 1977.

5.3.20.4 Diversion of funds under Sikkim Ecology Fund and Environmental Cess

The State of Sikkim notified the Sikkim Ecology Fund and Environmental Cess Act in 2005 and the Rules there under were framed in 2007. As per the Act, whoever brings non-biodegradable materials in the State of Sikkim with whatsoever purpose would be levied environmental cess at the rate of one *per cent* of total turnover on sale price. The broad objective for utilisation of this fund was to protect and improve the quality of environment, control and abate environment pollution and to take measures for restoration of ecological balance of the State.

Scrutiny of records revealed that the collection of environmental cess started from the year 2007-08 onwards under the Sikkim Ecology Fund and Environmental Cess Act. It was found that a total of ₹ 172.60 Crore was collected till 2014-15. However, while scrutinising utilisation of this ecology funds, it was seen that out of ₹ 106.46 crore of expenditure, a huge amount of ₹ 90.01 crore (85 *per cent*) was diverted for various purposes like construction, payments towards salaries, wages, muster rolls, purchase of vehicles, furniture, beautification of religious places, computers, establishment of saw mills in various places, and release of state share of various centrally sponsored schemes.

Further, it was also noticed that out of the total diversion of ₹ 90.01 crore, the funds amounting to ₹ 16.46 crore was transferred to Tourism Department for the project Sky-walk at Bhaleydung, South Sikkim and an amount of ₹ 24.60 crore was transferred to different sectors, other than ecology and environment for development purposes. The details are given in the following table:

Table 5.3.13

(₹ in lakh)

| Ecology Cess Funds utilised for various purposes other than environment and ecology | Amount |
|--|-----------------|
| Funds transferred to different sectors for developmental purposes other than ecology and environment purposes. | 2,460.00 |
| Payments towards salaries; wages; muster rolls | 1,916.09 |
| Release of state share of various centrally sponsored schemes | 1,866.16 |
| Funds transferred to Tourism Department for the project Sky-walk at Bhaleydung | 1,646.05 |
| Construction works, viz. Residential quarters, offices, footpath, gates, repairs, etc. | 866.31 |
| Purchase of vehicles | 79.04 |
| Establishment of saw mills in various places | 65.60 |
| Furniture of offices and forest residential quarters | 31.65 |
| On computers | 26.20 |
| Beautification of religious places | 14.50 |
| Miscellaneous items | 29.50 |
| TOTAL | 9,001.10 |

Hence, the funds so collected for the purpose of protection and improving the quality of environment, control and abating environment pollution and for taking measures for restoration of ecological balance of the State was mostly (85 *per cent*) diverted to other works defeated the purpose for which the environment cess was collected.

*Audit objective-4:
Whether adequate man power and effective Internal Control mechanisms existed?*

5.3.21 Manpower Management

Deployment of adequate manpower in the Board is required to carry out its various functions for prevention, control and abatement of pollution.

5.3.21.1 Shortage of manpower

Audit of records of the Board revealed that it was functioning from the existing manpower which was appointed prior to 2005. However, there was considerable increase in number of industries from 82(2005) to 331(2015) due to rapid industrialisation and establishment of industries like Hydro Electric Projects, Pharmaceutical units, Distilleries, Breweries, etc. in post 2005 period as shown in **Table-5.3.14**. Thus, it was imperative that the volume of work had increased, which necessitated increased requirement of manpower for monitoring, inspection and supervision of establishments for enforcement of various environmental Acts.

It was seen from the proposal of the Board (September 2012) sent to CPCB that they were in need of 31 number of technical and non-technical staff against which the Board was having at its disposal only 14 people with a shortage of 17 numbers of staff as shown in **Table-5.3.15**.

The details of industries established and manpower available is given in the tables below:

**Table 5.3.14
Status of industries**

| Status of industries | HEPs | Pharma- ceuticals | Distilleries & Breweries | Hotels | Hotmix plants | SSI & others | Stone crushers | Total |
|---------------------------------|------|----------------------|-----------------------------|--------|------------------|-----------------|-------------------|------------|
| No. of industries prior to 2005 | 01 | 01 | 04 | 50 | 0 | 24 | 02 | 82 |
| No. of industries at present | 17 | 38 | 10 | 119 | 18 | 54 | 75 | 331 |

**Table 5.3.15
Details of manpower**

| Cadre/ post | Number of staff available | Number of staff required | Shortage of staff |
|--------------------|---------------------------|--------------------------|-------------------|
| Scientific | 07 | 11 | 04 |
| Technical | 01 | 02 | 01 |
| Administration | 05 | 07 | 02 |
| Finance | 01 | 04 | 03 |
| Computer | 00 | 01 | 01 |
| Legal | 00 | 01 | 01 |
| Drivers and Gr 'D' | 00 | 05 | 05 |
| TOTAL | 14 | 31 | 17 |

Thus, it was evident that there was inadequate staff which led to compromise in discharging its responsibilities effectively with regard to issue of consents/authorisations to establish and operate, inspection, monitoring, supervision, conducting public hearings, etc.

The disproportionate deployment of manpower has adversely impacted the objective of retaining the pollution under control in the context of supervision, inspection and monitoring of industrial units and units generating BMW, STPs, MSWs, etc.

5.3.21.2 Appointment of Chairperson and Member Secretary

As per the Section 4.2(a) and (f) of Water (Prevention and Control) Act 1974 and section 5.2 (a) and (f) of Air Act 1981, the Chairperson of the Board should have qualification and special knowledge or experience in respect of matters relating to environmental protection or he should be a person having knowledge or practical experience in administering institutes dealing with environmental matters. He is to be nominated by the State Government. Similarly, the Member Secretary (MS) should possess qualification, knowledge and experience of scientific, engineering and management aspects of pollution control and he is to be appointed by the State Government. Further, it was seen that the MoEF, as directed by the Supreme Court Monitoring Committee (SCMC), requested (16 August 2005) the Chief Secretaries (CS) of all States for filing affidavit taking clear stand in matter of appointments of the Chairperson and MS in the State Boards on the directions issued by the SCMC. As per the directions of SCMC, the Chairperson of the Board should be individual with a sense of vision and a feeling for future and they must have an understanding of the complexity of modern science and technology since they will be dealing with highly technical issue. Similarly, the MS was required to be full timer and should possess a post-graduate degree in science, engineering or technology and have adequate experience of working in area of environment protection. Finally, it was instructed that only technically qualified professionals should be appointed to the critical positions of Chairperson and MS, so that their functioning could be strengthened as required in terms of paragraph 41.1 of Supreme Court's order dated 14 December 2003.

However, it was seen that the Chairperson as well as MS did not possess above mentioned requisite qualification. The Chairman was a public representative having qualification of BA, whereas the MS possessed the qualification of B.Sc. Further, the MS was not a full timer as he also looked after functions of other wings of FEWMD.

Hence, the SPCB was headed by the people not having pre-requisite qualifications and under such circumstances, management aspects of pollution control and understanding of the pollution related complexity of modern science & technology remained questionable.

5.3.21.3 Non-availability of qualified legal officers

Under the provisions of the Acts and Rules made there under, the Board was vested with authority to take legal action on violators of environmental laws. The Board was required to form a Legal Committee for this but it was found that no such Legal Committee was formed and reasons for the same were not furnished to audit by the Board.

Further, it was observed that legal section at the Board's Office did not have qualified legal officer and was manned by an engineer. The legal cases were dealt with through hired legal counsels appointed by the Board from time to time. Speedy disposal of legal cases under such circumstances were hampered to a great extent.

5.3.22 Inspections of industries

As per instructions issued in Schedule IV of the Notification (December 1999) by Ministry of Environment and Forest, GOI, industries shall be inspected at the following frequency depending on their classification, viz., Red (highly polluting), Orange (moderately polluting) and Green (least polluting):

Table 5.3.16

Prescribed frequency of inspections of industries by Board

| Sl. No. | Size of Industry | Category of Industry | Frequency of visit and effluent sampling |
|---------|------------------------|----------------------|--|
| 1 | Small scale | Red | Once in 12 months |
| | | Orange | Once in 3 years, |
| | | Green | Once in 3 years on random check basis |
| 2 | Large and Medium Scale | Red | Once in 3 months |
| | | Orange | Once in 6 months |
| | | Green | Once in 12 months |

The instructions also included an advice that State Board may chalk out a programme of inspection/sampling by its staff so as to cover all the units for vigilance and monitoring purposes and also to improve the frequency as might be necessary.

Audit noticed that the Board's inventory did not have any information on the number of small, medium and large industries under each category and the categorisation of industries had not yet been done by the Board. Records relating to numbers of inspection done were also not maintained. In absence of these information Audit could not make an assessment of the number of inspections due, conducted and shortfall thereto.

In reply, the Board stated that inspection of industries were conducted only as and when required or on receipt of specific complaints, though number of inspections conducted could not be furnished by the Board due to non-maintenance of any records of inspection. Further, the Board stated that categorisation of industries would be done shortly and as soon as the industries are categorised the inspection would be carried out accordingly. However, facts remained that the Board had failed to perform its function of periodic inspection effectively and in fact it is doubtful that any inspections were conducted at all in view of the absence of documentation.

While accepting the audit observation, the Board replied (October 2015) that the SPCB was waiting for uniform categorisation of industries from CPCB/MoEF after which regular inspection would be carried out as per the guidelines.

5.3.23 Dissemination of information in the websites

As per Section 17 (1) (c) of Water (Prevention and Control) Act 1974 and Air Act 1981, the Board is required to collect and disseminate information relating to water and air pollution and the prevention, control or abatement by posting data in the website of the Board. However, it was found that even after several requests from the CPCB, the Board failed to upload any analysed data in the website of the Board.

In reply, the Board stated that Board intended to carry out uploading of data at the earliest in the Web site.

5.3.24 Trainings

According to Section 17(1)(e) of Water (Prevention and Control of Pollution) Act 1974, the Board is required to collaborate with Central Board in organising training programmes for target groups relating to prevention, control and abatement of water pollution. It was also necessary to keep workforce updated about latest environmental issues and technology. Audit scrutiny revealed that no such training was given to any persons during 2010-11 and 2011-12. However, it was found that a very meagre amount of ₹ 7.51 lakh (less than one *per cent* of the total expenditure) was spent during last three years, i.e. 2012-13 to 2014-15 for training. This showed that the Board had not taken adequate efforts to organise training despite having huge unspent balance with the Board. While accepting it, the Board stated that they would give priority to organise training on regular basis.

Audit survey on the awareness of pollution revealed that the people did have idea/knowledge on municipal solid waste-its source and treatment, etc. Had the SPCB imparted training to the targeted groups, the knowledge on source and treatment of various wastes could have been disseminated and consequently the pollution could have been controlled and abated.

5.3.25 Board meetings

Section 10 of Air (Prevention and Control) Act, stipulated that the Board shall meet at least once in every three months. It was observed that during the five year period of 2010-15, the Board met only thrice as against the minimum requirement of 20 meetings.

Though only three Board meetings were held during the period under PA, minutes of only two meetings held on 5 December 2011 and 10 May 2013 were produced to Audit. While going through these minutes of the meetings, it was seen that decisions like early appointments of technical staff for Air Quality Monitoring Stations, conducting of the Board meetings at interval of every three months, appointment of Accounts Officer for looking after the Board's financial activities, getting of grants from the State Government on regular basis, conducting surprise and frequent checks of industries on regular basis, preparation of annual action plans every year, etc. were taken up. However, the Board failed to initiate follow up action on the lines of these minutes.

Thus, above facts corroborate that there was non-compliance to the standing Act. Though, the SPCB could hold only three meetings out of 20 requisite meetings, no follow up action could be taken for even these three meetings.

In reply, the Board stated that a proposal to conduct meetings on regular basis as per the provisions of the Act was under process. However, the fact remained that the SPCB had trailed in conducting meeting and more importantly, no follow up action of the conducted

meetings was taken which hampered the implementation of activities related to abatement of environmental pollution.

5.3.26 Monitoring and Evaluation

The Board had not developed any mechanism to monitor or to evaluate the compliance of the provisions of the Acts and Rules, as it did not have the required scientific and technical officials. The inaction of the Government was also responsible in not allowing the Board to discharge its statutory functions as the Board had not been given its autonomy in its functioning. Further, the Board had not made its own Rules and Regulations and Recruitment Policies and had been adopting State Government Rules and Regulations. As a result, it was lagging behind in monitoring and evaluating the compliance of the provisions of the Acts and Rules such that 86 numbers of units were operating without consent, three units were functioning without effluent treatment plant, healthcare facilities were inadequately equipped with respect to treatment of bio-medical waste, etc.

In reply, the Board stated that the matter related to monitoring and evaluation was being taken up.

5.3.27 Monitoring of Environmental Statements of industries not monitored

As per Rule 14 of the Environment (Protection) Rules 1986, every person carrying on an industry, operation or process requiring consent under Section 25 of the Water (Prevention and Control of Pollution) Act 1974 or under Section 21 of the Air (Prevention and Control of Pollution) Act 1981 or both or Authorisation under Hazardous Wastes (Management and Handling) Rules 1989 issued under the Environment (Protection) Act 1986 was to submit an Environmental Statement (ES) for the financial years ending 31 March in Form V to the Board on or before 30 September of every year. All the industries were required to submit ES as per the Rule.

It was revealed that most of the industries had not submitted their ES as required under rules. As a result, the Board was not able to know compliance of Environmental Act and Rules by industries and could not initiate follow up action.

5.3.28 Internal control mechanisms in the Board

Internal audit is an independent appraisal of the control mechanism in the Department by the auditors. The responsibility of carrying out internal audit of the Board was assigned to Directorate of Internal Audit under Finance, Revenue and Expenditure Department. It was however, noticed that the Director of Internal Audit had not inspected records of the Board during any of the years under PA. Consequently, weakness, lacunae in the internal control were not brought to the notice of the Board to initiate corrective measures.

5.3.29 Annual Reports not prepared

As per Para 39 of the Water (Prevention and Control of Pollution) Act 1974, the Board is required to prepare the Annual Report in respect of the year last ended giving a true and full account of activities of the Board during previous financial year and shall submit such report to the State Government by 15 May each year to be laid before the State Legislature. However, it was found that the Board had not prepared any Annual Report since 2008-09 onwards. Thus, the Board was not in a position to review the status of works already done and was not able to set the future programmes perspective.

In reply, the Board stated that Annual Reports would be prepared and furnished.

5.3.30 Good Practices

State of Sikkim as well as some of the industries had adopted some good practices to improve quality of environment, control and abating environment pollution as mentioned below:

1. The State of Sikkim has notified The Sikkim Ecology Fund and Environmental Cess Act in 2005 and the Rules 2007. As per the Act, the environmental cess would be levied at the rate of one *per cent* of total turnover on sale price whoever brings non-biodegradable materials in the State of Sikkim with an objective to protect and improve the quality of environment, control and abating environment pollution and to take measures for restoration of ecological balance of the State.
2. On directions of the Board in consent letters, industries were developing green belt by planting various kinds of trees in factory premises.
3. Industries were utilising the treated effluent water for reuse in toilets and watering of gardens within their industrial compound with the ZLD concept which could be seen from the photographs below:

Image 5.3.33



Treated effluent being used for gardening purpose at Intas Pharma, Bagheykhola, East Sikkim

Image 5.3.34



Treated effluent being used for gardening purpose at STP/PTS, Sangkhola, East Sikkim

5.3.31 Absence of preparedness to deal with environmental pollution in Himalayas

The Himalayas are home to some 110 mountain peaks that stretch along 1,550 miles of Asia and harbour 10,000 glaciers. These massive rivers of ice hold the third largest

amount of stored fresh water on the planet (after the North and South Poles). This frozen water is the main source of replenishment to lakes, streams and some of the continent's mightiest rivers, on which millions of people depend for their water supplies. However, since the 1960s, the area covered by Himalayan glaciers has declined by more than 20 *per cent*. Some glaciers are melting away so rapidly that scientists are worried that they might disappear by mid of this century.

Climate change is one of the greatest challenges faced by the world in present times. With the current rate of green-house gas emission, the global temperature is likely to increase. This increase in temperature has affected the climate pattern causing cascading effect on biotic and non-biotic components of the ecosystem. The growing levels of greenhouse gases and the resultant global warming are threatening the Himalayan glaciers. Large clouds of pollution which hang over South and East Asia could also be contributing as much as the recent increases in greenhouse gases to the heating of the lower atmosphere. Their combined effect could be warming the lower atmosphere in the region which may be sufficient to account for the observed retreat of the Himalayan glaciers. Further, diesel fumes, along with smoke from coal burning, cooking fires and the burning of waste are among the main sources of particulate matter called soot or black carbon. This black carbon rises into the atmosphere and is driven by winds on to the snow or ice in the Himalayas, darkening the surface and in the process reducing reflectivity and causing the surface to absorb more heat.

Warming rate, and also its consequences, is higher in the Himalayas than the rest of the world. Sikkim occupies an important bio-geographic location in the entire Himalayan chain and represents high diversity of life forms. Over the years, various climate induced adverse effects have been felt in the Sikkim Himalayas. Due to this climate change, many species of fauna have shifted upwards along the elevation gradient in Sikkim. The severe effect of climate change on Sikkim fauna may lead to serious consequences resulting in their extinction. The present climatic variability that is slow and steady may lead to a sudden climate change over a period of time. It is understood that the human activities like agriculture, running of factories, burning of fossil fuels for transportation, deforestation, urban development are changing the climate on a micro level which, in turn, is changing the climate in the Himalayan range in Sikkim.

It is seen that many glaciers of the Sikkim Himalaya are forming glacial lakes with increasing intensity, which in fact is corroborated with the intermediate effects of long-term climate changes apprehended by majority of scientists. Due to increase in the rate of melting of the glaciers, lakes are increasing in the area and so is their stored water capacity. Surrounded by potentially dangerous glacial lakes that can burst and cause floods any time in Teesta and Rangit rivers of the State, Sikkim needs immediate long and short term plans for mitigating the eminent danger.

Despite the situation being alarming in the context of endangered Himalayan environment and pollution in rivers of Sikkim, the SPCB has not yet prepared itself to mitigate the adverse impact of such agents of pollution.

5.3.32 Conclusion

The Board did not prepare Annual Action Plans since its inception in 1992. There was no inventorisation of industries, stones crusher/hot-mix plants, DG sets, hotels, HCFs, etc. which resulted in operation without consent as well as non-realisation of revenue by the Board. Several industries, municipalities, healthcare establishments were operating without valid/renewed Consent for Operation. Out of 13 towns, 12 towns were operating without any sewage treatment facilities. Some of the industries were not having any ETPs and in some of the industries, ETPs were not functioning. Municipal waste was not treated properly and treatment facilities were not sufficient to treat waste generated in the State as most of the towns were not having such facilities. The UDHD had not so far constructed any landfill site for disposal of untreated non-biodegradable waste. Hazardous waste was also not disposed in prescribed time as most of the industries had kept accumulated hazardous waste in their premises openly. Out of 69 HCFs, only 20 HCFs had obtained BMW authorisation. Some of the HCFs were not having required treatment equipment. The Board was not fully equipped with lab equipments to carry out various types of water and air testing and monitoring facilities. No Air Quality Monitoring Stations were established despite incurring expenditure of ₹ 30.77 lakh on procurement of equipments. There was no authorised collection centre and registered dealer in the State for handling of e-waste. There was huge shortage of water and air stack lab equipments in the Central Lab of the Board. Out of total funds of ₹13.70 crore available with the Board during the period of PA, the Board could utilise ₹ 8.02 crore only with a saving of ₹5.68 crore. The Board failed to enforce Water Cess Act and hence could not collect water cess of ₹0.60 crore. There was diversion of funds towards various purposes like construction, payments on salaries, purchase of vehicles, furniture, computers, establishment of saw mills, etc. amounting to ₹ 90.01 crore from the Sikkim Ecology Funds and Environment Cess, which was collected to protect and improve the quality of environment, control and abate environment pollution and to take measures for restoration of ecological balance of the State. The Board did not categorise the industries into 'Red', 'Orange' and 'Green' as a result of which there was substantial shortfall in conducting inspections in these industries. There was no monitoring exercised by the Board on compliance of environmental norms by industries, stone crushers, STPs, MSW Plants, etc. Despite such large number of violations, the Board failed to initiate legal action to contain pollution.

5.3.33 Recommendations

The Board should consider implementing the following recommendations:

- prepare robust database regarding different polluting sources, pollution load, etc., and prepare annual comprehensive action plans. These needs to be done in a time bond manner;
- initiate legal actions for violation of provisions of environmental laws and ensure that no establishment is working without consent of the Board;

- take immediate steps for implementation of Water Cess Act, issues of setting up STPs and utilise its accumulated funds towards prevention, control and abatement of pollution;
- take measures for safe disposal of hazardous and biomedical/organic and inorganic waste which needs to be ensured through stringent action including shutting down defaulters institution and periodical verification of air/water monitoring stations; and
- the ambient air quality meters need to be established immediately.

CHAPTER VI FOLLOW UP OF AUDIT OBSERVATIONS

6.1 Follow up action on earlier Audit Reports

Audit observations on financial irregularities and deficiencies in maintenance of initial accounts noticed during local audit and not settled on the spot are communicated to the audited departments and to the higher authorities through Inspection Reports (IRs).

Serious irregularities noticed in audit are included in the Report of the Comptroller and Auditor General of India (Audit Reports) and presented to the State Legislature. According to the instructions issued by the Finance, Revenue and Expenditure Department (FRED), Government of Sikkim, all the concerned administrative departments were required to furnish explanatory notes on the paragraphs/reviews included in the Audit Reports within one month from the date of issue of the Audit Reports.

It was however, noticed that as of October 2015, in more than 90 *per cent* cases, the concerned administrative departments had not submitted the explanatory notes on the paragraphs/reviews included in the Audit Report pertaining to the year 2011-12. In respect of Audit Report for the year 2012-13, explanatory notes had not been submitted by concerned departments in 69 *per cent* case. Further, no explanatory notes have been received for Audit Report 2013-14.

6.2 Response of the departments to the recommendations of the Public Accounts Committee (PAC)

Finance Revenue and Expenditure Department issued instructions to all departments to submit Action Taken Notes (ATNs) on various suggestions, observations and recommendations made by PAC for their consideration within 15 days of presentation of the PAC Reports to the Legislature. The PAC Reports/recommendations are the principal medium by which the Legislature enforces financial accountability of the Executives to the Legislature and it is appropriate that they elicit timely response from the departments in the form of ATNs.

As of October 2015, ATNs had been received in respect of all 598 recommendations of the PAC, made between 1990-91 and 2008-09.

6.3 Follow up audit on PAC recommendations on Development of Hydro Power Projects - Public Private Participation

The PAC in its 96th Report made thirteen recommendations to Energy and Power Department (EPD), Government of Sikkim in connection with the Performance Audit Report on ‘Development of Hydro Power Projects - Public Private Participation’ featured in the Audit Report for the year 2008-09. The para-wise compliance to the PAC recommendations are detailed below.

Table 6.1

| Para reference/ Subject in brief | Observation and Recommendation of PAC | Reply of the management | Follow up audit |
|---|---|--|--|
| Para-1.1.8 Private power policy | PAC observed that the set of terms and conditions approved by the State Government based on the recommendations of the Hydro Committee may be declared as the Hydro Power Policy of the Government of Sikkim as a guiding principle in future so that the State would be fully able to achieve the objective of harnessing the hydro power potential of the State to the fullest possible extent. | The Hydro Power Policy which was being followed is under revision and would be immediately notified as recommended by the PAC once revised hydro policy is approved by the Government of Sikkim. | The PAC recommendation was not complied with since Hydro Power Policy of the Government of Sikkim had not yet been finalised till October 2015. |
| Para-1.1.9.2 Safeguards against Plants remaining defunct | PAC desired the Department to enlighten it with regard to the details of the visits conducted by the Eastern Region Power Committee, GOI and that of SSERC and their consequent findings on failures of private developers, if any, and necessary action taken thereon accordingly. | There is no defunct Independent Power Projects (IPP) as of October 2015. | The recommendation might be taken as complied with since there was no defunct Independent Power Projects (IPP). |
| Para-1.1.9.3 Modality for Transfer of Projects | PAC observed that details of modalities for transfer of projects on expiry of agreement period had not been formulated as on January 2014. Similarly, the strategy for taking over the projects after expiry of award period including the manpower engaged in projects would be formulated. | The modalities for transfer of the IPP to the State on expiry of agreement period including requirements for trained manpower for the operation and maintenance and management of the assets is under preparation and will be submitted to the PAC on finalisation and approval of the Government. | The PAC recommendation was not complied with as the modalities for transfer of the IPP to the State on expiry of agreement period including requirements of trained manpower for operation & maintenance and management of the assets was under preparation. |
| Para-1.1.10.4 Penalty for delay in Commissioning | PAC observed that the pre-requisite exercises of obtaining forest and environment clearances, techno-economic | A list of projects submitted. | As per records furnished to audit, in respect of 12 projects for which MOUs had been signed after |

| Para reference/ Subject in brief | Observation and Recommendation of PAC | Reply of the management | Follow up audit |
|---|---|--|--|
| of IPP projects | concurrences, etc. should have been thoroughly made before execution of such vital projects. The Department may initiate necessary co-ordination of all the concerned agencies well in advance before embarking on such vital projects of the State in future. | | 2009, no work had commenced as the pre-requisite condition of obtaining environmental clearance, forest clearance, etc. were not fulfilled. |
| Para-1.1.11.1 Equity Subscription Agreement | PAC recommended that the Department may speed up the process of execution of equity subscription agreement between GOS and the Developers in terms of the agreement laid. | Equity has been subscribed to two projects till October 2015, Teesta Stage-III and Rangit-IV. | It was complied with in respect of two projects only whereas for four other projects (Teesta I, II & IV and Panan) it was found to be not complied with. |
| Para-1.1.11.3 Abandonment of Projects | PAC observed that all aspects behind considerable delays in implementation of power projects as brought to the notice of the Committee indicate lack of appropriate planning by the concerned Department. PAC observed that the Department may accordingly rectify the lapse for future guidance so that any potential loss to the State on account of non-commissioning of projects within stipulated period of time is avoided in future. | No projects have been abandoned. Due to various constraints like geological surprises, natural calamities, road blockages, etc., projects were delayed. | No projects were abandoned till October 2015 but delay occurred due to reasons cited by the Department. |
| Para-1.1.12.1 Environment Impact Assessment | PAC recommended that the Department may take up the matter for clearing up the existing lack of co-ordination between the concerned Departments in particular, with the Department of Forest, Environment and Wildlife Management so that further delays in implementation of projects are avoided in future. | As per MOU, the onus for obtaining all required environmental clearances lies with the company/developer. The EPD interacts with the Forest, Environment and Wildlife Management Department, Government of Sikkim and other concerned agencies. However, all matters related to EIA and EMP are being directly dealt with by the Forest, Environment and Wildlife Management Department, Government of Sikkim. | Audit could verify the formation of multi-disciplinary committees in respect of six projects out of 30 projects. The Committees had been constituted with representatives of both the Departments. Hence, the recommendation had been partially complied with. |

| Para reference/ Subject in brief | Observation and Recommendation of PAC | Reply of the management | Follow up audit |
|---|--|--|--|
| Para-1.1.12.2 Catchment Area Treatment Plans | PAC recommended that the Department, in this respect should work out proper co-ordination between all the concerned Departments including Forests and Private Developers so that necessary aspects of environment are protected in future. | All Catchment Area Treatment (CAT) Works are under the direct supervision of the Forest, Environment and Wildlife Management Department, and Government of Sikkim. | In respect of coordination, multi-disciplinary committees had been constituted. The amount spent towards CAT works by the Forest Environment and Wildlife Management Department for the years 2009-10 was ₹ 1.37 crore (for four projects) and ₹ 9.93 crore in 2010-11. |
| Para-1.1.12.3 Implementation of Compensatory Catchment Area Treatment, Wildlife Preservations, etc. | PAC recommended that the Department may expedite release of the Compensatory Afforestation Management and Planning Agency (CAMPA) fund to the concerned Forest Department and co-ordinate on the matter for early implementation. | The Forest, Environment and Wildlife Management Department, Government of Sikkim is the nodal Department for implementation of Compensatory Catchment Area Treatment, wildlife preservation and other environmental safeguard works. | Total receipts for the State CAMPA for the period 2009-12 was ₹ 27.28 crore which was fully utilised. Hence, complied with. |
| Para-1.1.12.6 Disaster Management Plan | PAC recommended for working out on priority a robust Disaster Management Plan (DMP) in the form of a well co-ordinated action plan and implemented towards prevention and preparedness to face any disasters in future. | The DMP has to be prepared for individual hydro projects and the same is prepared by the developer operating the project. A safety guideline for public safety at hydro power projects has been prepared by the Department and notified by the Government of Sikkim. | Disaster Management Plan had been prepared only for two projects out of 10 projects. |
| Para-1.1.14.1 Monitoring of Projects implementing by SPDC | PAC observed that the success of projects, to a large extent depends on proper monitoring. The Department may further go for effective monitoring mechanism with a view to achieve full success of power projects in the State. | As per the directives of the PAC, the Department has taken initiatives for proper monitoring of the ongoing hydro projects. District Officers of the Department under whose jurisdiction the projects are being developed have been directed to monitor the progress of the project and report to the HQ. Various High Level Monitoring Committees have been | The SPDC had been restructured in August 2011 by disinvestment of 49 per cent of its equity stake to Athena Project Private Limited. In respect of projects under the control of SPDC (8 projects), three projects were functioning, two projects were stalled (paucity of funds) and three more projects had been proposed. In respect of EPD (22 projects), all issues related to hydropower projects had been assigned to a Chief |

| Para reference/ Subject in brief | Observation and Recommendation of PAC | Reply of the management | Follow up audit |
|---|---|--|--|
| | | constituted by the State Government to monitor and have visited major projects like Teesta-III, Teesta-V, Teesta-VI, Chujachen HEP, etc. to address issues during the development of the hydro projects. | Engineer (2009) for monitoring. Considering the reply and the above, the recommendation had been complied with. |
| Para-1.1.14.2 Monitoring by Multi-Disciplinary Committee | PAC recommended to expedite the constitution of Multi-Disciplinary Committee to avoid any lapse in the relevant aspects of projects in future. | As nodal Department, the Forest, Environment and Wildlife Management Department, Government of Sikkim, constituted the Multi-Disciplinary Committees. | Multi-Disciplinary Committees had been constituted in respect of six projects out of total 30 projects. Hence complied with partially. |
| Para-1.1.14.3 Monitoring by Project Level Welfare Committee | Paragraph 1.1.14.3 Monitoring by Project Level Welfare Committee PAC recommended the Department to take up the matter expeditiously for constitution of the Committee to avoid any lapse in the relevant projects in future. | Project Level Welfare Committee is constituted project-wise wherein local politicians, gram panchayat, village representatives, local administration and company representatives are members. District administration authorities where ongoing projects are located have constituted Project Level Welfare Committee for addressing any local issues within the project area. | In the absence of notification for constitution of Project Level Welfare Committees for each projects under SPDC and EPD audit could not confirm the compliance. |

6.4 Monitoring

The following Committees had been formed at the Government level to monitor the follow up action on Audit related matters:

Departmental Audit and Accounts Committee: Departmental Audit and Accounts Committee (DAAC) had been formed (November 2010) by all departments of the Government under the Chairmanship of the Departmental Secretary/Head of Department to monitor the follow up action on Audit related matters. The DAAC's function was to monitor the response and corrective action on findings reported in the Inspection Reports issued by the Accountant General (Audit). It was to hold meetings once in three months

and send quarterly action taken report on the issues to the State Audit and Accounts Committee.

State Audit and Accounts Committee: State Audit and Accounts Committee (SAAC) had been formed (June 2010) at the State level under the Chairmanship of the Chief Secretary to monitor the response and corrective action on the findings reported by audit, to review and oversee the working of DAAC and also to hold meetings once in three months.

After formation of DAAC and SAAC by the State Government, Human Resource Development Department approached the Office of the Accountant General (Audit) to settle outstanding paragraphs and IRs during 2011-12. However, during 2013-14 and 2014-15, not a single Department approached to settle outstanding paragraphs and IRs.

6.5 Outstanding Inspection Reports

The Accountant General (Audit), Sikkim (AG) conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the IRs incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the Heads of the Offices inspected with copies to the higher authorities for taking prompt corrective action. The Heads of the Offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of the issue of the IRs. Serious irregularities are reported to the Heads of the departments and the Government.

The position of outstanding IRs pertaining to Civil (Expenditure audit including that of Works, Forest and Autonomous Bodies), Revenue (Audit of Revenue departments) and Commercial (Audit of Public Sector Undertakings) audit as of March 2015 is shown below:

Table 6.2

| Year | Civil (including works, Forest and Autonomous Bodies) | | Revenue | | Commercial | |
|--------------|---|--------------|------------|------------|------------|------------|
| | No. of IRs | Paragraphs | No. of IRs | Paragraphs | No. of IRs | Paragraphs |
| Upto 2010-11 | 638 | 1,164 | 75 | 159 | 42 | 89 |
| 2011-12 | 50 | 110 | 04 | 24 | 12 | 29 |
| 2012-13 | 53 | 194 | 06 | 17 | 14 | 49 |
| 2013-14 | 130 | 502 | 03 | 12 | 16 | 76 |
| 2014-15 | 138 | 669 | 13 | 52 | 17 | 129 |
| TOTAL | 1,009 | 2,639 | 101 | 264 | 101 | 372 |

This large pendency of IRs was indicative of inadequate action by the Heads of offices and departments towards the remedial measures that should have been taken on the irregularities pointed out by Audit through the IRs.

6.6 Departmental Audit Committee Meetings

During 2014-15, 3 Audit Committee Meetings were held, wherein 29 IRs and 173 paragraphs were discussed out of which 6 IRs and 97 paragraphs were settled as detailed below:

Table 6.3

| Sector | No. of meetings held | Discussed | | Settled | |
|--|----------------------|-----------|------------|----------|-----------|
| | | IR | Para | IR | Para |
| Civil (including Works, Forest and Autonomous Bodies) | 2 | 16 | 100 | 4 | 61 |
| Revenue | 1 | 13 | 73 | 2 | 36 |
| Commercial | - | - | - | - | - |
| TOTAL | 3 | 29 | 173 | 6 | 97 |

Gangtok
The 15 February 2016


(Vanlal Chhuanga)
Accountant General (Audit), Sikkim

Countersigned

New Delhi
The 20 February 2016


(Shashi Kant Sharma)
Comptroller and Auditor General of India

Appendix 1.2.1
Audit conducted during 2014-15 under Social Sector
(Reference: Paragraph 1.2, Page 2)

(₹ in crore)

| Name of the Unit | Expenditure of the unit (i.e. expenditure of the unit for the financial year for which audit conducted) | | | | |
|---|--|---------|---------|---------|---------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Commissioner-cum-Secretary, Urban Development and Housing Department | - | - | - | 93.99 | - |
| North Eastern Region Capital City Development Investment Programme, Secretary, Ecclesiastical Affairs Department | - | - | - | 14.94 | - |
| Block Development Officer, Yangyang, South | 1.64 | 3.25 | 2.23 | 3.13 | - |
| Block Development Officer, Ravangla, South | 7.13 | 1.60 | 2.68 | 0.83 | - |
| Block Development Officer, Pangthang, East | - | 1.76 | 3.84 | 5.17 | - |
| Block Development Officer, Regu, East | 0.65 | 0.97 | 7.14 | 5.85 | - |
| Block Development Officer, Mangan, North | - | 0.64 | 1.05 | 1.21 | - |
| Block Development Officer, Passingdong, North | 1.20 | 1.73 | 1.20 | 1.55 | - |
| Block Development Officer, Kaluk West | 0.24 | 0.76 | 2.72 | 3.07 | - |
| Block Development Officer, Rakdong Tintek, East | - | 1.21 | 0.71 | 14.62 | - |
| Block Development Officer, Sumbuk | 0.64 | 1.29 | 4.20 | 12.98 | - |
| Block Development Officer, Temi, South | - | 0.72 | 0.79 | 1.42 | - |
| Block Development Officer, Sikip, West | 2.10 | 3.39 | 4.28 | 4.12 | - |
| Block Development Officer, Duga, East | 4.70 | 2.86 | 2.04 | 2.73 | - |
| Block Development Officer, Rhenock, East | 2.87 | 3.75 | 4.66 | 4.85 | - |
| Block Development Officer, Pakyong, East | 5.04 | 6.22 | 2.43 | 5.14 | - |
| Block Development Officer, Jorethang, South | 2.68 | 2.55 | 2.80 | 4.68 | - |
| Block Development Officer, Ranka, East | 0.60 | 0.76 | 0.85 | 0.84 | - |
| Block Development Officer, Gangtok, East | 0.79 | 1.02 | 1.02 | 1.06 | - |
| Block Development Officer, Namchi, South | 1.26 | 0.98 | 0.87 | 0.96 | - |
| Secretary, Labour Department | - | - | - | 1.41 | - |
| Principal Vocational Training Improvement Project (VTIP), Rangpo | - | - | - | 0.72 | - |
| Commissioner-cum-Secretary, Employee State Insurance Corporation (Labour Department) | - | - | - | 0.46 | - |
| Principal Secretary, Human Resource Development Department (HRDD) | - | - | - | 36.87 | - |
| Joint Director, West, HRDD | - | - | 54.17 | 58.08 | - |
| Principal, Sikkim Govt. B. Ed College, Soreng | - | - | 0.74 | 0.80 | - |
| Director, Technical Education | - | - | - | 0.49 | - |
| Principal, Sikkim Government College, Gyalshing | - | 0.44 | 0.69 | 1.08 | - |
| Principal, Sikkim Government College, Rhenock | 1.14 | 1.19 | 1.65 | 1.36 | - |
| Principal, Government Sanskrit College, Samdong | 0.40 | 0.37 | 0.42 | 0.50 | - |
| Principal, Namch Govt. College, Kamrang | 3.44 | 2.09 | 1.58 | 2.99 | - |
| Commissioner-cum-Secretary, Social Justice Empowerment and Welfare Department, (Women and Child Welfare Division) | - | - | - | 3.65 | - |
| Commissioner-cum-Secretary, Social Justice Empowerment and Welfare Department, (Social Welfare Division) | - | - | - | 15.93 | - |
| Commissioner-cum-Secretary, Social Justice Empowerment and Welfare Department (Welfare Division) | - | - | - | 13.45 | - |
| Welfare Officer, Social Welfare, West | - | 0.40 | 0.23 | 0.26 | - |
| Welfare Officer, Social Welfare, South | - | 0.32 | 0.18 | 0.23 | - |
| Welfare Officer, Social Welfare, North | - | 0.16 | 0.17 | 0.22 | - |
| Child Development Project Officer, Urban Slum Project, Gangtok | - | 1.13 | 1.56 | 1.43 | - |

| | | | | | |
|---|--------------|--------------|--------------|---------------|--------------|
| Secretary, Food & Civil Supplies and Consumer Affairs Department (FCSCAD) | - | - | - | 7.69 | - |
| Dy. Director, South/FCSCAD | 1.88 | 0.96 | 1.08 | 1.25 | - |
| Dy. Director, West/FCSCAD | 0.62 | 0.61 | 0.75 | 0.78 | - |
| Director General-cum-Secretary, Health Care, Human Services and Family Welfare Department | - | - | 17.76 | 33.09 | 16.99 |
| STNM Hospital, Gangtok | - | - | - | - | 11.00 |
| Chief Medical Officer, District Hospital, Gyalshing | 23.69 | 12.21 | 14.12 | 15.84 | - |
| Mission Director, NRHM, Gangtok | - | - | - | 28.89 | - |
| Vice Chairman-cum-Chief Medical Officer, NRHM, East | - | - | - | 3.75 | - |
| Vice Chairman-cum-Chief Medical Officer, NRHM, South | - | - | - | 3.78 | - |
| Vice Chairman-cum-Chief Medical Officer, NRHM, West | - | - | - | 3.40 | - |
| Vice Chairman-cum-Chief Medical Officer, NRHM, North | - | - | - | 1.73 | - |
| Joint Secretary (S/W), UDHD, Jorethang | - | 35.84 | 39.63 | 28.53 | - |
| TOTAL | 62.71 | 91.18 | 18.24 | 485.85 | 27.99 |

Appendix 2.2.1

Audit conducted during 2014-15 under Economic Sector

(Reference: Paragraph 2.2, Page 6)

(₹ in crore)

| Name of the Unit | Expenditure of the unit (i.e. expenditure of the unit for the financial year for which audit conducted) | | | | |
|--|--|---------|---------|---------|---------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Conservator of Forest, Wild Life Circle, Forest Environment & Wildlife Management Department (FEWMD) | 0.48 | 0.51 | 0.50 | 0.52 | - |
| DFO Social Forestry, FEWMD | - | 0.44 | 0.57 | 0.51 | - |
| DFO, Social Forestry, Gangtok, FEWMD | - | 0.74 | 0.80 | 0.88 | - |
| DFO Social Forestry, Mangan, FEWMD | - | 0.32 | 0.29 | 0.33 | - |
| DFO Social Forestry, Gyalshing, FEWMD | - | 0.30 | 0.36 | 0.47 | - |
| Chief Conservator of Forest, Environment & Soil Conservation, Gangtok, FEWMD | - | 1.22 | 1.26 | 1.20 | - |
| DFO, Environment and Soil Conservation, Mangan, FEWMD | - | 0.55 | 0.64 | 0.63 | - |
| DFO, Environment and Soil Conservation Soil Conservation, Gangtok, FEWMD | - | 0.57 | 0.96 | 0.74 | - |
| DFO, Kanchadzonga National Park | - | 2.26 | 1.90 | 2.75 | - |
| DFO, Banbas Programme | - | 0.97 | 0.48 | 0.99 | - |
| Project Director, Japan International Cooperation Agency (JICA) Assisted Sikkim Biodiversity Conservation and Management Project | - | - | - | 18.45 | - |
| State Compensatory Afforestation fund Management and Planning Authority (CAMPA), FEWMD | 17.78 | 10.08 | 5.45 | - | - |
| Secretary, Commerce and Industries Department | - | - | - | - | 28.41 |
| General Manager District Industries Centre (South/West) | - | 0.93 | 0.88 | 0.99 | - |
| Secretary Mines and Geology Department. | - | - | - | 3.58 | - |
| Superintending Engineer, Energy & Power Department, West District, Gyalshing | 15.28 | 5.20 | 6.48 | 7.92 | - |
| Secretary, Co-operation Department, | - | - | - | 7.19 | - |
| Joint Registrar, Co-operation Department, Namchi | - | 1.25 | 13.14 | 1.58 | - |
| Joint Registrar, Co-operation Department, Gangtok | - | 1.65 | 1.21 | 1.92 | - |
| Joint Registrar Co-operation Department, Gyalshing | - | 3.16 | 0.96 | 1.36 | - |
| Joint Registrar, Co-operation Department, Mangan | - | 0.78 | 0.84 | 0.84 | - |

| | | | | | |
|---|--------------|--------------|---------------|---------------|---------------|
| Principal Chief Engineer-cum-Secretary, Water Security and Public Health Engineering Department (WSPHED) | - | - | - | 24.03 | - |
| Divisional Engineer, Namchi, WSPHED | - | - | 3.95 | 6.57 | - |
| Divisional Engineer, Gyalshing, WSPHED | - | 0.29 | 0.30 | 4.89 | - |
| Secretary, Horticulture & Cash Crop Department | - | - | - | 30.46 | - |
| Small Farmers Agri Business Consortium, Technology Mission | - | - | - | 50.21 | - |
| Principal Chief Engineer-cum-Secretary, Roads and Bridges Department (RBD) | - | - | - | - | 191.66 |
| Superintending Engineer, Namchi, RBD | - | - | - | - | 2.55 |
| Divisional Engineer, Gyalshing, RBD | 7.75 | 38.99 | 66.14 | 59.11 | 24.65 |
| Assistant Engineer, Mangan, RBD | - | - | - | - | 0.94 |
| Project Director North Eastern Region Capital City Development Investment Programme (NERSAP) | - | - | - | 9.82 | - |
| Commissioner-cum-Secretary, Animal Husbandry, Livestock, Fisheries and Veterinary Services Department (AHLFVSD) | - | - | - | - | 8.65 |
| Additional Director, Gyalshing, AHLFVSD | - | 5.98 | 3.01 | 4.05 | - |
| Dy. Director, Namchi AHLFVSD | - | 0.78 | 0.79 | 0.92 | - |
| Dy. Director/Fisheries, Mangan, AHLFVSD | - | 1.54 | 0.85 | 0.82 | - |
| Secretary, Food Security and Agriculture Development Department | - | - | - | - | 45.40 |
| Sikkim Organic Mission | - | - | - | 0.53 | - |
| Secretary, Irrigation and Flood Control Department (IFCD) | - | - | - | - | 16.36 |
| Divisional Engineer, Mangan, IFCD | - | - | - | 3.10 | - |
| Divisional Engineer, Namchi, IFCD | - | - | - | 3.80 | - |
| Divisional Engineer Gyalshing, IFCD | - | - | - | 3.23 | - |
| Divisional Engineer, Gangtok, IFCD | - | - | - | 0.77 | - |
| Secretary, Transport Department (Sikkim National Transport Division) | - | - | - | 41.41 | - |
| Secretary, Rural Management and Development Department (RMDD). | - | - | - | 285.76 | - |
| Additional District Collector/Development, RMDD, Namchi | - | - | - | 1.82 | - |
| Additional District Collector/Development, RMDD, Gangtok | - | - | - | 2.64 | - |
| Additional District Collector/Development, RMDD, Mangan | - | - | - | 1.64 | - |
| Additional District Collector/Development, RMDD, Gyalshing | - | - | - | 1.48 | - |
| Principal Chief Engineer-cum-Secretary, Building and Housing Department (BHD) | - | - | - | - | 85.44 |
| Assistant Engineer, Mangan, BHD | - | - | - | 3.67 | - |
| Divisional Engineer, Namchi, BHD | - | - | - | 2.51 | - |
| Divisional Engineer, Gyalshing, BHD | - | - | - | 4.59 | - |
| Secretary, Tourism and Civil Aviation Department | - | - | - | 68.33 | - |
| South Asian Tourism Infrastructure Development Project | - | - | - | 2.19 | - |
| TOTAL | 41.29 | 78.51 | 111.78 | 671.20 | 404.06 |

Appendix 2.4.1

Fruits

(Reference: Paragraph 2.4.9, Page 38)

| Year | Particulars | Sikkim | States | | | | | | |
|---------|--------------|--------|------------------|-------------------|---------|----------|-------|-------------|-----------|
| | | | Himachal Pradesh | Arunachal Pradesh | Mizoram | Nagaland | J &K | Uttarakhand | Meghalaya |
| 2011-12 | Area | 13.4 | 214.6 | 85.1 | 43.7 | 33.7 | 415.7 | 200.7 | 32.3 |
| | Production | 22.5 | 372.8 | 308.9 | 275.7 | 347.7 | 2,329 | 802.1 | 300.4 |
| | Productivity | 1.7 | 1.7 | 3.6 | 6.3 | 10.3 | 5.1 | 4.0 | 9.3 |
| 2012-13 | Area | 14.7 | 218.0 | 86.9 | 49.7 | 37.2 | 347.2 | 200.9 | 33.2 |
| | Production | 24.0 | 555.7 | 312.2 | 293.0 | 276.0 | 1,742 | 805.7 | 316.6 |
| | Productivity | 1.6 | 2.5 | 3.6 | 5.9 | 7.4 | 5.0 | 4 | 9.5 |
| 2013-14 | Area | 16.0 | 220.7 | 89.1 | 57.6 | 40.6 | 355.2 | 171.6 | 35.3 |
| | Production | 24.1 | 866.3 | 321.3 | 343.9 | 411.0 | 2,073 | 678.5 | 348.0 |
| | Productivity | 1.5 | 3.9 | 3.6 | 6.0 | 10.1 | 5.8 | 4 | 9.9 |

Area- in '000 hectares; Production- in '000 MT.

Source: Indian Horticulture Database-2014 published by National Horticulture Board.

Appendix 2.4.2

Vegetables

(Reference: Paragraph 2.4.9, Page 38)

| Year | Particulars | Sikkim | States | | | | | | |
|---------|--------------|--------|------------------|-------------------|---------|----------|------|-------------|-----------|
| | | | Himachal Pradesh | Arunachal Pradesh | Mizoram | Nagaland | J &K | Uttarakhand | Meghalaya |
| 2011-12 | Area | 25 | 85.7 | 6.3 | 37.4 | 33 | 63.1 | 89.3 | 39.5 |
| | Production | 127.7 | 1561.5 | 83.5 | 221.1 | 222.6 | 1395 | 1066.7 | 385 |
| | Productivity | 5.1 | 18.2 | 13.2 | 5.9 | 6.7 | 22.1 | 11.9 | 9.8 |
| 2012-13 | Area | 25.6 | 79.5 | 1.5 | 39.3 | 26 | 63.1 | 88.0 | 40.5 |
| | Production | 132.5 | 1521.1 | 37.6 | 236.7 | 207.7 | 1395 | 1059.6 | 403 |
| | Productivity | 5.2 | 19.1 | 24.7 | 6.0 | 8.0 | 22.1 | 12.0 | 10 |
| 2013-14 | Area | 26.1 | 86.6 | 1.4 | 41.1 | 38.6 | 63.1 | 88.3 | 43.6 |
| | Production | 134.5 | 1635.9 | 35.0 | 254.1 | 492.4 | 1395 | 1016.8 | 515 |
| | Productivity | 5.2 | 18.9 | 25.0 | 6.2 | 12.8 | 22.1 | 11.5 | 11.8 |

Area- in '000 hectares; Production- in '000 MT

Source: Indian Horticulture Database-2014 published by National Horticulture Board

Appendix 2.4.3

Spices

(Reference: Paragraph 2.4.9, Page 39)

| Year | Particulars | Sikkim | States | | | | | | |
|---------|--------------|--------|------------------|-------------------|---------|----------|------|-------------|-----------|
| | | | Himachal Pradesh | Arunachal Pradesh | Mizoram | Nagaland | J &K | Uttarakhand | Meghalaya |
| 2011-12 | Area | 24.4 | 4.8 | 10.1 | 20.6 | 9.8 | 4.1 | 6.6 | 16.8 |
| | Production | 54.4 | 19.3 | 61.6 | 115.0 | 39.2 | 1.1 | 38.8 | 74.8 |
| | Productivity | 2.2 | 4 | 6.1 | 5.6 | 4.0 | 0.3 | 5.9 | 4.4 |
| 2012-13 | Area | 26.6 | 7.3 | 10.2 | 22.5 | 9.8 | 4.1 | 8.1 | 16.9 |
| | Production | 60.1 | 10.3 | 64.3 | 59.6 | 39.2 | 1.1 | 41.1 | 74.8 |
| | Productivity | 2.3 | 1.4 | 6.3 | 2.7 | 4.0 | 0.3 | 5.1 | 4.4 |
| 2013-14 | Area | 32.1 | 8.4 | 10.2 | 22.5 | 9.8 | 4.9 | 8.1 | 17.5 |
| | Production | 55.8 | 14.2 | 64.3 | 59.6 | 39.2 | 1.1 | 41.1 | 83.9 |
| | Productivity | 1.7 | 1.7 | 6.3 | 2.7 | 4.0 | 0.2 | 5.1 | 4.8 |

Area- in '000 hectares; Production- in '000 MT.

Source: Indian Horticulture Database-2014 published by National Horticulture Board.

Appendix 2.4.4 Physical Target and Achievement under HMNEH

(Reference: Paragraph 2.4.9.2, Page 39)

| Sl. No. | Component | Unit | 2010-11 | | 2011-12 | | 2012-13 | | 2013-14 | | 2014-15 | |
|---------|---|------|---------|--------|----------|----------|----------|----------|----------|----------|----------|----------|
| | | | T | A | T | A | T | A | T | A | T | A |
| 1 | Production of Planting Materials | Nos | 5 | 5 | 41 | 41 | 56 | 56 | 70 | 70 | 64.5 | 58 |
| 2 | Area Expansion | | | | | | | | | | | |
| | Fruits | Ha | 3,023 | 3,023 | 3,430 | 3,430 | 1,408 | 1,408 | 1,585 | 1,585 | 4,091 | 2,017 |
| | Vegetables | Ha | 775 | 775 | 665 | 665 | 840 | 840 | 1,220 | 1,220 | 620 | 775 |
| | Flowers | Ha | 470 | 470 | 645 | 645 | 625 | 625 | 705 | 705 | 272 | 257 |
| | Spices | Ha | 1,252 | 1,252 | 1,960 | 1,960 | 2,066 | 2,066 | 2,521 | 2,518 | 2,688 | 2,716 |
| 3 | Rejuvenation/replacement of senile plantation | Ha | 400 | 400 | 700 | 700 | 620 | 620 | 750 | 750 | 800 | 732 |
| 4 | Creation of Water Sources | Nos | 4 | 4 | 108 | 108 | 135 | 135 | 150 | 150 | 169 | 169 |
| 5 | Mushroom | Nos | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 2 | 3 | 3 |
| 6 | Protected Cultivation | Sq.m | 94,000 | 94,000 | 2,99,155 | 2,99,155 | 2,19,260 | 2,19,260 | 3,31,800 | 3,31,800 | 6,67,862 | 6,21,923 |
| 7 | Promotion of INM/IPM | Ha | 1,800 | 1,800 | 10,500 | 10,500 | 5,000 | 5,000 | 5,000 | 5,000 | 10,800 | 10,800 |
| 8 | Organic Farming | Ha | 4,115 | 4,115 | 9,887 | 9,887 | 13,233 | 13,233 | 11,857 | 11,857 | 7,809 | 16,951 |
| 9 | Pollination support through Bee keeping | Nos | 3,001 | 3,001 | 1,433 | 1,433 | 1,003 | 1,003 | 4,520 | 4,520 | 2,832 | 0 |
| 10 | Horticulture Mechanism | Nos | 50 | 50 | 101 | 101 | 612 | 612 | 495 | 495 | 2 | 1 |
| 11 | Centre of Excellence | Nos | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 0 | 0 |

Appendix 2.7.1

Unwarranted inclusion of GSB-III in addition to GSB-I and GSB-II in works

(Reference: Paragraph 2.7, Page 63)

| Sl. No. | District | Name of work | RA Bill No | GSB-III executed quantity | Rate | Total Executed | Tender rate (above: + & below : -) | Total With tender | Contractors name | SOR used |
|---------|----------|--|---|---------------------------|---------|--------------------|------------------------------------|--------------------|--|--------------|
| 1 | East | Upgradation, carpeting including P/w and drainage along Sangkhola Sumin Road Km 1 st to Km 5 th . | 4 th RA/Ch.No. 107354/5.2.14 | 703.564 | 1168.86 | 822367.817 | 15 | 945722.9896 | Shiv Kumar Agarwal, Singtam | 2006 Revised |
| 2 | East | Upgradation & premix carpeting including P/w and improvement of drainage of Tintek Dikchu Road Km 1 st to km 12 th . | 4 th RA Bill/Ch.No. 501306/22.10.14 | 2685.06 | 1168.86 | 3138459.232 | 22 | 3828920.263 | KK Group of Co. | 2006 Revised |
| 3 | | Upgradation of Kingstone Simanakhola road Km 1 st to 2 nd | 3 rd RA Bill/Vr.No. 19/24.3.14 | 303.85 | 1168.86 | 355158.111 | 15 | 408431.8277 | Thendup Sherpa | |
| 4 | East | Carpeting work along with Lingtam-Agamlok. | 2 nd RA Bill/29.10.14 | 612.35 | 1168.86 | 715751.421 | 15 | 823114.1342 | M/s Premlakha Subaney dara Contractors | |
| 5 | East | Upgra, Improve, Drainage, & Carpeting of Pakyong Machong Rolep Road Km 20 to 35 th . | 4 th RA Bill/ Vr.No. 5/1.10.14 | 610.17 | 1168.86 | 713203.3062 | 22 | 870108.0336 | M/s Apex Projects Pvt LTD | |
| 6 | South | Surface Improvement, carpeting, drainage & P/works on Benthalaari to Mangley Road 1 st to 7 th km. | 2 nd RA/Vr.No. 111-112/31.3.14 | 1948.44 | 1168.86 | 2277453.578 | 20 | 2732944.294 | Tsewang Gyatso Kaleon | 2006 Revised |
| 7 | South | Improvmet carpeting along Melli Kerabari road km 1 st - 5 th km TFC. | 3 rd RA Bill/ Vr.No.15/28.3.14 | 478.08 | 1168.86 | 558808.5888 | 16 | 648217.963 | M/s Mellidara Paiyog educate unemployed coop society | 2006 Revised |
| 8 | South | Premix carpeting drainage, & P/works along Satam Samru Road Km-2 nd Ch 18 Ch 25 STIDF | Vr.No 17/26.8.14/MB No 006/P | 371.212 | 1168.86 | 433894.8583 | 15 | 498979.0871 | M/s Rangrang Yangyang Coop Society | 2006 Revised |
| 9 | South | Const of Truckable road from Old Vety. Compound to Tharpu (Kopchey) 5054-Removal. | Vr.No.134/31.3.14/ MB No.83/D/6 th & Final | 83.8 | 1168.86 | 97950.468 | 14.55 | 112202.2611 | CP Rajalim | 2006 Revised |
| 10 | South | Surface Improv. Carpeting drainage & P/works along Ralong - Namlung Rd under Ravangla Sub Division STIDF. | 2 nd & Final / Vr.No.39/ 22.10.14/MB No.361 /P, 0113 /P/52/P | 1655.85 | 1168.86 | 1935456.831 | 15 | 2225775.356 | Shyama Sunder Sharma | 2006 Revised |
| 11 | South | Upgradatom of Mellidar Paiyong Road to Mellidar & Kerabari JSC | Vr.No.51/31.10.14/MB Part II/444/D/5 th RA Bill | 3212.39 | 1168.86 | 3754834.175 | 15 | 4318059.302 | Bigyan Rai | 2006 Revised |
| 12 | South | Const. & Improvement of Simchuthang Pabong Yangyang Road Km 14 th to Km 23 rd NEC. | Vr.No.96-97/30.9.14 MB No.002/P /6 th RA Bill | 3257.86 | 1168.86 | 3807982.24 | 22 | 4645738.332 | Ashok Chamling | 2006 Revised |
| 13 | South | Surface, improvement, drainage & carpeting of on 3 km Road from Janata Bazar to U. Lingmoo (Phase IV). | Vr.No.21-22/15.11.14 MB No. 227/D/4 th & Final Bill | 206.93 | 1168.86 | 241872.1998 | 15 | 278153.0298 | Lingmoo Kolthang Constr. Coop society | 2006 Revised |
| 14 | South | Surface, improvement, drainage & carpeting of on 3 km Road from Janata Bazar to U. Lingmoo (Phase I). | Vr.No.20-22/15.11.14/MB No. 224/D/4 th & Final Bill | 86.4 | 1168.86 | 100989.504 | 15 | 116137.9296 | Lingmoo Kolthang Constr. Coop society | 2006 Revised |
| 15 | South | Surface, improvement, drainage & carpeting of on 3 km Road from Janata Bazar to U. Lingmoo (Phase III) NABARD. | Vr.No.21-22/15.11.14/MB No. 226/D/4 th & Final Bill | 271.58 | 1168.86 | 317438.9988 | 15 | 365054.8486 | Lingmoo Kolthang Constr. Coop society | 2006 Revised |
| 16 | South | Surface, improvement, drainage & carpeting of on 3 km Road from Janata Bazar to U. Lingmoo (Phase III) NABARD. | Vr.No.19/15.11.14/MB No. 225/D/4 th & Final Bill | 266.38 | 1168.86 | 311360.9268 | 15 | 358065.0658 | Lingmoo Kolthang Constr. Coop society | 2006 Revised |
| | | | 16 Works | 16753.916 | | 19582982.26 | | 23175624.72 | | |

Appendix 2.10.1

Statement showing details of defaulters who have availed housing loans

(Reference: Paragraph 2.10, Page 67)

| Sl. No./ Code | Name | Department | Year of Sanction | Amount o/s as on 03/15 (incl. int./p.int) | Remarks |
|---------------|--------------------------|-------------------------------|------------------|---|--------------------|
| 1/2615 | Radhika Pradhan | PAO (Left Service) | 1994 | 822505 | |
| 2/2797 | Sonam Topden Bhutia | Police (Expired) | 1994 | 609636 | |
| 3/3575 | Topda Bhutia | SBS (Expired) | 1995 | 224143 | Certificate issued |
| 4/594 | Chung Tshering Bhutia | High Court (Expired) | 1994 | 247309 | |
| 5/1137 | Sukman Gurung | Police (Retired) | 1994 | 118994 | |
| 6/2912 | Man Bdr Lakhandan | Forest (Retired) | 1994 | 101445 | |
| 7/3114 | Shyam Kumar Sah | Land Revenue (Left Service) | 1994 | 25039 | |
| 8/2619 | Tshewang D. Tonyot | PART (Expired) | 1994 | 385355 | Under trail |
| 9/4332 | Puspupal Biswakarma | Police (Expired) | 1996 | 89194 | |
| 10/1543 | Deepak Subba | SNT (Terminated) | 1995 | 502860 | |
| 11/3305 | Passang Tamang | Sikkim Fire Service (Expired) | 1994 | 149759 | |
| 12/3634 | Nima Bhutia | Police (Terminated) | 1995 | 160704 | Under trail |
| 13/3915 | Jit Bdr Subba | Police (Terminated) | 1995 | 159199 | Under trail |
| 14/3918 | Dil Bdr Tamang | Sikkim Fire (Terminated) | 1995 | 96552 | |
| 15/4633 | Tul Man Rai | Police (Terminated) | 1996 | 96709 | Certificate issued |
| 16/4903 | Dhan Bdr Gurung | Police (Retired) | 1997 | 102329 | |
| 17/4913 | Topgay Lepcha | SBS (Expired) | 1997 | 32264 | |
| 18/5093 | Zanul Abden | SAP (Expired) | 1997 | 109357 | |
| 19/5003 | Ramesh Kumar Chettri | SAP (Terminated) | 1997 | 181629 | Under trail |
| 20/5069 | Kumar Chettri | Police (Suspended) | 1997 | 42322 | Under trail |
| 21/7006 | Tempo Gyatso Lepcha | SAP (Terminated) | 1997 | 156085 | |
| 22/2430 | Kathup Lepcha | Forest (Expired) | 1993 | 2465 | |
| 23/2829 | Amrit Kr. Chhetri | Home (Expired) | 1994 | 16914 | |
| 24/437 | Tenzing Bhutia | SLA (Retired) | 1992 | 46338 | |
| 25/482 | Rinchen Tshering Bhutia | Police (Terminated) | 1992 | 78502 | |
| 26/572 | Budhiman Tamang | Power (Retired) | 1992 | 148889 | |
| 27/1863 | Bhama Singh Subba | Education (Left Service) | 1993 | 121941 | |
| 28/2778 | Dambar Singh Chettri | UDHD (Expired) | 1994 | 34419 | |
| 29/3209 | Deepak Rai | UDHD (Expired) | 1994 | 22935 | |
| 30/3439 | M.A. Kumar | UDHD (Left Service) | 1994 | 779552 | |
| 31/9298 | Kumar Chhetri | Police (Expired) | 1998 | 52255 | |
| 32/9374 | Ramesh Kumar Chettri | SAP (Terminated) | 1999 | 140346 | |
| 33/9582 | Man Bahadur Lakhandri | Forest (Retired) | 1999 | 265253 | Under trail |
| 34/9721 | Topgay Lepcha | SBS (Expired) | 1999 | 107314 | |
| 35/9801 | Lall Bahadur Gurung | RDD (Expired) | 1999 | 163962 | |
| | | | | | 63,94,474 |
| 36/186 | S. Bose | Private (Expired) | 1992 | 118846 | |
| 37/4695 | Sam Tshering Lepcha | Private | | 43191 | Retired |
| 38/155 | Kamal N. Pradhan | Private | | 194819 | Certificate issued |
| 39/79 | Bhim Kumari Chettri | Private | | 2106526 | Certificate issued |
| 40/207 | Dhan Bahadur Gurung | Private | | 102756 | Under trail |
| 41/145 | D.B. Thatal | Private | | 796126 | Under trail |
| | | | | | 3357264 |
| 42/3926 | L.T. Wangchuk | Education | 1995 | 279988 | Certificate issued |
| 43/7021 | Karna Deo Gurung | Education | 1997 | 14340 | Under trail |
| 44/3324 | Sarswati Gurung | Education | 1994 | 175117 | Under trail |
| 45/3565 | Dawa Lhakpa Sherpa | Police | 1994 | 59137 | |
| 46/3267 | Mindu Tshering Lachungpa | Power | 1994 | 27393 | |

| | | | | | |
|----------|-------------------------|--------------------|------|--------|------------------|
| 47/3367 | Chenga Lachungpa | Forest | 1994 | 305924 | |
| 48/4584 | Dharni Prasad Sharma | Education | 1995 | 368 | |
| 49/4131 | P.T. Bhutia | Animal Husbandry | 1995 | 1151 | |
| 50/4186 | Pavitra Sanyashi | SNT | 1996 | 37556 | |
| 51/4396 | Gurmey Tenzing Lachenpa | Power | 1996 | 173327 | |
| 52/4797 | Bhim Kumar Pradhan | Land Revenue | 1998 | 1544 | |
| 53/4888 | Pema Lepcha | Forest | 1998 | 352 | |
| 54/9104 | Dhan Bahadur Pradhan | Home | 1997 | 32771 | |
| 55/7090 | Kaziman Basnett | Education | 1997 | 1758 | |
| 56/9121 | Pem Tshering Bhutia | Police | 1997 | 3441 | |
| 57/7055 | Sonam Ongmoo Karthok | Power | 1997 | 1050 | |
| 58/170 | Dorji Tshering Bhutia | DC | 1997 | 809 | |
| 59/189 | Lawang Norbu Bhutia. | SNT | 1990 | 1465 | |
| 60/100 | Loknath Pokhrail | DC | 1990 | 627 | |
| 61/117 | T. Wangmu Lepcha | DHH | 1990 | 518 | |
| 62/1900 | Dhan Kumar Subba | SPWD (R&B) | 1991 | 606 | |
| 63/1958 | Kenzong Bhutia | Education | 1991 | 831 | |
| 64/1140 | Kharda Bdr. Bhandari | Education | 1991 | 3633 | |
| 65/1590 | Kiran Bahadur Gurung | Education | 1991 | 998 | |
| 66/1032 | Kul Bahadur Gurung | Education | 1991 | 881 | |
| 67/2063 | Nima Tshering Tamang | Health | 1991 | 1475 | |
| 68/1548 | Passang Dugyal Lepcha | Home | 1991 | 672 | |
| 69/1602 | Purna Bahadur Subba | Education | 1991 | 308 | |
| 70/1442 | Sangay Sherpa | Police | 1991 | 2330 | |
| 71/1168 | Til Dhoj Subba | Education | 1991 | 708 | |
| 72/2079 | Ugen Bhutia | Education | 1991 | 701 | |
| 73/1169 | Ugen Lepcha | Police | 1991 | 6614 | |
| 74/2085 | Bal Bahadur Subba | Power | 1991 | 5756 | |
| 75/2788 | Dambar Singh Lohar | Welfare | 1991 | 2051 | |
| 76/273 | D.B. Chettri | Education | 1991 | 9149 | |
| 77/2542 | Dilli Ram Chettri | Forest | 1991 | 673 | |
| 78/2563 | Lall Bahadur Subba | Education | 1991 | 66392 | |
| 79/2556 | Pem Dorji Sherpa | Agriculture | 1991 | 597 | |
| 80/2153 | Raj Man Subba | Health | 1991 | 101306 | |
| 81/2514 | Ram Prasad Chhetri | SPWD (R&B) | 1991 | 3235 | |
| 82/2047 | Sam Bahadur Rai | SBS | 1991 | 17209 | |
| 83//2533 | Tobgay Lepcha | SPWD (R&B) | 1991 | 21679 | |
| 84/2919 | Tulsi Das Biswakarma | Sikkim Jewels | 1991 | 538 | |
| 85/505 | Asok Kumar Basnett | Education | 1992 | 2106 | |
| 86/887 | Bir Bahadur Chhetri | Police | 1992 | 5355 | |
| 87/601 | Bir Bahadur Darnal | Police | 1992 | 850 | |
| 88/827 | Karzung Lepcha | UDHD | 1992 | 955 | |
| 89/735 | Kharga Bahadur Chettri | Khadi Board | 1992 | 282 | |
| 90/701 | Prem Dorji Tamang | Police | 1992 | 2463 | |
| 91/702 | Prem Lall Basnet | RDD | 1992 | 27044 | |
| 92/746 | Rapden Serpa | Police | 1992 | 599 | |
| 93/874 | Tek Bahadur Subba | Rajya Sainik Board | 1992 | 3252 | |
| 94/592 | Til Bahadur Chhetri | Education | 1992 | 6119 | |
| 95/1889 | Jagat Bahadur Khatri | PAO | 1993 | 2265 | |
| 96/1886 | Karna Bahadur Pradhan | Police | 1993 | 14214 | |
| 97/2191 | Tenzing Shenga | SPWD (R&B) | 1993 | 4025 | |
| 98/3746 | Karna Bahadur Gurung | Education | 1993 | 29803 | |
| 99/3955 | Naina Singh Basnett | Health | 1993 | 1178 | |
| 100/1740 | Stella Singh | Education | 1993 | 235 | |
| 101/3630 | Chandra Singh Rai | Welfare | 1993 | 1254 | |
| 102/9691 | Dawa Lhakpa Sherpa | Police | 1993 | 772817 | |
| 103/9545 | Gopal Sunar | Police | 1993 | 109332 | |
| | | | | | 23,51,126 |

Appendix 3.1.1

Statement showing investments made by State Government in SPSUs whose accounts are in arrears

(Reference: Paragraph 3.1.10; Page 74)

(Figures in columns 4 and 6 to 8 are ₹ in crore)

| Sl. No. | Name of the State Public Sector Undertaking | Year up to which accounts finalised | Paid up capital | Period of accounts pending finalisation | Investment made by State Government during the year of which accounts are in arrears | | |
|----------|--|-------------------------------------|-----------------|---|--|-------|-------------|
| | | | | | Equity | Loans | Grants |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| A | Working Government Companies | | | | | | |
| 1 | Sikkim Poultry Development Corporation (SPDCL) | 2008-09 | 0.00 | 2009-10 to 2014-15 | Nil | Nil | 0.16 |
| | GRAND TOTAL (A + B) | | 0.00 | | | | 0.16 |

Appendix 3.1.2

Summarised financial position and working results of Government Companies and Statutory Corporations as per their latest finalised financial statements/accounts as on 30 September 2015

(Reference: Paragraph 3.1.14; Page 75)

| Sl No | Sector/Name of the company | Period of accounts | Year in which accounts finalised | Paid up capital | Loan outstanding at the end of the year | Accumulated Profit (+)/ loss(-) | Turnover | Net profit (+)/ loss(-) | Net impact of Accounts comments | Capital employed | Return on capital employed | Percentage of return on capital employed | Man-power |
|---|--|--------------------|----------------------------------|-----------------|---|---------------------------------|--------------|-------------------------|---------------------------------|------------------|----------------------------|--|------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| A. Working Government Companies | | | | | | | | | | | | | |
| Agriculture and Allied | | | | | | | | | | | | | |
| 1 | Sikkim Poultry Development Corporation Limited (SPDCL) | 2008-09 | 2009-10 | 0.00 | 0 | -0.73 | 0 | -0.08 | 0 | 0.16 | -0.08 | - | 4 |
| 2 | Sikkim Hatcheries Limited (SHL) | 2008-09 | 2009-10 | 0.46 | 0 | -1.67 | 0.98 | -0.14 | 0 | -1.33 | -0.14 | - | 5 |
| 3 | Sikkim Livestock Processing and Development Corporation (SLPDC) | 2012-13 | 2014-15 | 0.69 | 0.01 | -1.02 | 0.05 | -0.01 | -0.11 | 0.06 | -0.01 | - | 3 |
| Sector wise total | | - | - | 1.15 | 0.01 | -3.42 | 1.03 | -0.23 | -0.11 | -1.11 | -0.23 | - | 12 |
| Finance | | | | | | | | | | | | | |
| 4 | Schedule Caste, Schedule Tribe and Other Backward Classes Development Corporation Limited (SABCCO) | 2012-13 | 2015-16 | 14.02 | 31.14 | -15.26 | 2.02 | -3.91 | 0.01 | 29.90 | -2.88 | - | 23 |
| Sector wise total | | | | 14.02 | 31.14 | -15.26 | 2.02 | -3.91 | 0.01 | 29.90 | -2.88 | - | 23 |
| Infrastructure | | | | | | | | | | | | | |
| 5 | Sikkim Industrial Development and Investment Corporation Limited (SIDICO) | 2013-14 | 2014-15 | 17.14 | 141.30 | 6.82 | 18.03 | 3.28 | 0 | 167.63 | 18.31 | 10.92 | 37 |
| Sector wise total | | | | 17.14 | 141.30 | 6.82 | 18.03 | 3.28 | 0 | 167.63 | 18.31 | 10.92 | 37 |
| Power | | | | | | | | | | | | | |
| 6 | Sikkim Power Development Corporation (SPDC) | 2013-14 | 2015-16 | 20.30 | 100.80 | -45.50 | 4.31 | -16.64 | 0 | 132.84 | -14.14 | - | 73 |
| Sector wise total | | - | - | 20.30 | 100.80 | -45.50 | 4.31 | -16.64 | 0 | 132.84 | -14.14 | - | 73 |
| Service | | | | | | | | | | | | | |
| 7 | Sikkim Tourism Development Corporation (STDC) | 2012-13 | 2013-14 | 6.46 | 0 | -1.90 | 2.21 | 0.04 | 0 | 4.69 | 0.06 | 1.27 | 66 |
| Sector wise total | | - | - | 6.46 | 0 | -1.90 | 2.21 | 0.04 | 0 | 4.69 | 0.06 | 1.27 | 66 |
| Total A (All sector wise working Government companies) | | - | - | 59.07 | 273.25 | -59.26 | 27.6 | -17.46 | -0.10 | 333.95 | 1.12 | 13.13 | 211 |
| B Statutory Corporations | | | | | | | | | | | | | |
| Finance | | | | | | | | | | | | | |
| 8 | State Bank of Sikkim (SBS) | 2010-11 | 2013-14 | 0.58 | 0 | -13.32 | 74.15 | -7.05 | 0 | 1290.44 | 62.53 | 4.85 | 315 |
| Sector wise total | | - | - | 0.58 | 0 | -13.32 | 74.15 | -7.05 | | 1290.44 | 62.53 | 4.85 | 315 |
| Service | | | | | | | | | | | | | |
| 9 | State Trading Corporation of Sikkim (STCS) | 2010-11 | 2013-14 | 1.61 | 0 | 7.73 | 47.53 | 0.85 | 0 | 9.34 | 0.85 | 9.10 | 92 |
| Sector wise total | | | | 1.61 | 0 | 7.73 | 47.53 | 0.85 | | 9.34 | 0.85 | 9.10 | 92 |

| Sl No | Sector/Name of the company | Period of accounts | Year in which accounts finalised | Paid up capital | Loan outstanding at the end of the year | Accumulated Profit (+)/ loss(-) | Turnover | Net profit (+)/ loss(-) | Net impact of Accounts comments | Capital employed | Return on capital employed | Percentage of return on capital employed | Man-power |
|---|--|--------------------|----------------------------------|-----------------|---|---------------------------------|----------|-------------------------|---------------------------------|------------------|----------------------------|--|-----------|
| Total B (All sector wise working Statutory corporations) | | - | - | 2.19 | 0 | -5.59 | 121.68 | -6.2 | 0 | 1299.78 | 63.38 | 13.95 | 407 |
| Grand Total (A+B) | | - | - | 61.26 | 273.25 | -64.85 | 149.28 | -23.66 | -0.10 | 1633.73 | 64.50 | 27.08 | 618 |
| C. Non-working Government Companies | | | | | | | | | | | | | |
| Agriculture and Allied | | | | | | | | | | | | | |
| 10 | Sikkim Flour Mills Limited (SFML) | 1994-95 | 1995 | 2.44 | 0 | -0.13 | 0 | 0 | 0 | 2.44 | 0 | - | Nil |
| Sector wise total | | | | 2.44 | 0 | -0.13 | 0 | 0 | 0 | 2.44 | 0 | - | Nil |
| Service | | | | | | | | | | | | | |
| 11 | Chandmari Workshops and Automobiles Limited (CWAL) | 1994-95 | 1997 | 0.30 | 0 | -0.02 | 0 | -0.14 | 0 | 0.30 | -0.14 | - | Nil |
| Sector wise total | | | | 0.30 | 0 | -0.02 | 0 | -0.14 | 0 | 0.30 | -0.14 | - | Nil |
| Manufacturing | | | | | | | | | | | | | |
| 12 | Sikkim Jewels Limited (SJL) | 2012-13 | 2013-14 | 15.25 | 0 | -15.89 | 0 | -1.09 | 0 | 0.06 | - | - | Nil |
| 13 | Sikkim Times Corporation (SITCO) | 2012-13 | 2013-14 | 23.49 | 0 | -21.42 | 0 | -2.23 | 0 | 2.80 | - | - | Nil |
| 14 | Sikkim Precision Industries Limited (SPIL) | 2012-13 | 2013-14 | 4.39 | 0 | -3.53 | 0 | -0.64 | 0 | 0.86 | - | - | Nil |
| Sector wise total | | - | - | 43.13 | 0 | -40.84 | 0 | -3.96 | 0 | 3.72 | - | - | Nil |
| Total C (All sector wise non-working Government companies) | | - | - | 45.87 | 0 | -40.99 | 0 | -4.10 | 0 | 6.46 | -0.14 | - | Nil |
| D. Non-working Statutory Corporation | | | | | | | | | | | | | |
| 15 | Sikkim Mining Corporation (SMC) | 2010-11 | 2012-13 | 12.50 | 0 | -11.88 | 0 | 0 | 0 | 5.26 | 0 | - | Nil |
| Sector Wise Total | | - | - | 12.50 | 0 | -11.88 | 0 | 0 | 0 | 5.26 | 0 | - | Nil |
| Total D | | - | - | 12.50 | 0 | -11.88 | 0 | 0 | 0 | 5.26 | 0 | - | Nil |
| GRAND TOTAL (A+B+C+D) | | - | - | 119.63 | 273.25 | -117.72 | 149.28 | -27.76 | -0.10 | 1645.45 | 64.36 | 3.91 | 618 |

Appendix 3.2.1

Cases of fraudulent cash withdrawal

(Reference: Paragraph 3.2; Page 81)

| Sl No | Date | Cheque No. | Amount | Account No. | Remarks |
|-----------|---|------------|----------------|------------------|--|
| I | From Cheque book issued in the name of Bhanu Bista Account No.101234001100 | | | | |
| 1 | 9-Feb-15 | 31602 | 30000 | 101234001100486 | Account holder Bhanu Bista; Signature not matching |
| 2 | 7-Mar-15 | 31603 | 150000 | 101234001000459 | A/c Holder Laxmi Prasad Bista; signature not matching |
| 3 | 14-Mar-15 | 31604 | 250000 | 101234001000459 | A/c Holder Laxmi Prasad Bista; Word and figure not matching ;signature not matching |
| 4 | 17-Mar-15 | 31605 | 17000 | 101234001000459 | A/c Holder Laxmi Prasad Bista; signature not matching |
| 5 | 7-Apr-15 | 31608 | 300000 | 101234001000459 | A/c Holder Laxmi Prasad Bista; Cheque do not bear A/c number; Signature not matching |
| 6 | 13-Apr-15 | 31610 | 300000 | 101234001000459 | A/c Holder Laxmi Prasad Bista; Signature not matching |
| 7 | 7-May-15 | 31611 | 25000 | 101234001100486 | Account holder BhanuBista; Signature not matching |
| 8 | 13-May-15 | 31613 | 150000 | 101234001100491 | Account Holder T N Sharma; Cheque do not bear A/c number; signature not verified |
| 9 | 13-May-15 | 31614 | 50000 | 1012340010100040 | Account holder C M Sharma; Cheque do not bear A/c number; Signature not verified |
| 10 | 8-Jun-15 | 31615 | 150000 | 101234001000082 | Account holder Kamala Chettri; Signature not verified (specimen signature in Nepali) |
| 11 | 8-Jun-15 | 31616 | 229000 | 101234001000164 | Account Holder Phurba Tsh Bhutia, signature not verified |
| 12 | 8-Jun-15 | 31617 | 28000 | 101234001000459 | A/c Holder Laxmi Prasad Bista; signature not verified |
| 13 | 8-Jun-15 | 31618 | 28000 | 101234001000459 | A/c Holder Laxmi Prasad Bista; Word and figure not matching ;signature not verified |
| 14 | 11-Jun-15 | 31619 | 200000 | 101234001000164 | Account Holder Phurba Tsh Bhutia, signature not verified |
| 15 | 9-May-15 | 31621 | 255000 | 101234001000459 | A/c Holder Laxmi Prasad Bista; Words and figure differs; signature not verified |
| 16 | 9-Feb-15 | 31622 | 100000 | 101234001100152 | Account holder Sujan Kumar Bista; signature not matching |
| 17 | 11-Jun-15 | 31623 | 30000 | 101234001000459 | A/c Holder Laxmi Prasad Bista ;signature not verified |
| II | Cheque book issued in the name of Milan Kumar Limboo, Account No.101234001000489 | | | | |
| 18 | 16-Jan-15 | 31327 | 85000 | 101234001100152 | Account holder Sujan Kumar Bista; signature not matching |
| 19 | 21-Jan-15 | 31328 | 35000 | 101234001100152 | Account holder Sujan Kumar Bista; signature not matching |
| | TOTAL | | 2412000 | | |

Appendix 4.13.1

Details of ITC sales uploaded by the wholesaler as compared with figure of 'sales to registered dealer' shown in quarterly returns

(Reference: Paragraph 4.13.2, Page 116)

| Name of the Wholesaler | Year | Goods sold at 4 % VAT (₹) | | | Goods sold at 12.5 % VAT (₹) | | |
|------------------------|---------|--|---|-------------|--|---|-------------|
| | | Sales uploaded for allowing ITC claims | Sales declared in the quarterly Returns | Difference* | Sales uploaded for allowing ITC claims | Sales declared in the quarterly Returns | Difference* |
| Goodwill Enterprise | 2012-13 | 14392940 | 12853793 | 1539147 | 13651237 | 10362339 | 3288898 |
| | 2013-14 | 37230189 | 37485843 | -255654 | 33385254 | 33762866 | -377612 |
| Krishan Company | 2012-13 | 3086274 | 3672883 | -586609 | 31382995 | 40293643 | -8910648 |
| | 2013-14 | 5114074.94 | 5219116.53 | -105041.59 | 51505644 | 55970126 | -4464482 |
| Style | 2012-13 | 833008 | 833008 | 0 | 2865277 | 2865277 | 0 |
| | 2013-14 | 888348 | 10869152 | -9980804 | 4510063 | 4510064 | -1 |
| EssEss Traders | 2012-13 | 10541308 | 10123042 | 418266 | 24258988 | 23046602 | 1212386 |
| | 2013-14 | 31874637 | 32237233 | -362596 | 55696506 | 55939884 | -243378 |
| Himalayan Hardware | 2012-13 | 803356 | 929896 | -126540 | 28551840 | 42468703 | -13916863 |
| | 2013-14 | 4628269 | 1436180 | 3192089 | 89999555 | 78006965 | 11992590 |
| Samvritdhi | 2012-13 | 975000 | 953144 | 21856 | 143697880 | 170795210 | -27097330 |
| IOC | 2012-13 | 185311226 | 303032125 | -117720899 | 46143533 | 188688511 | -142544978 |
| | 2013-14 | 260473920.2 | 318741693 | -58267772.8 | 60518291 | 308540057 | -248021766 |
| Vikash Agency | 2013-14 | 316974 | 380211 | -63237 | 21142061 | 21317337 | -175276 |

Source: Online data of ITC sales and Quarterly Returns.

* Positive figure denotes that ITC was allowed to the retailers but tax was not actually collected from them and the negative figure denotes that though Input Tax was charged to the retailer they could not avail ITC.

Appendix 4.13.2

Comparison of ITC purchases with local purchases shown in the returns

(Reference: Paragraph 4.13.2, Page 117)

| Name of Dealers | TIN No. | Year | ITC Purchases (₹) | Local purchases as per Qtly Return (₹) | Differences (₹)* |
|-------------------------------|-------------|---------|-------------------|--|-------------------|
| M/s. Neel | 11321772112 | 2012-13 | 1174036.50 | 8919986.97 | -7745950.47 |
| | | 2013-14 | 3382227.69 | 40343785.82 | -36961558.13 |
| M/s. Surajmall Manoharla | 11260565812 | 2012-13 | 0 | 17797890.00 | -17797890.00 |
| | | 2013-14 | 7935734.78 | 50869825.00 | -42934090.22 |
| M/s. Balaji Enterprises | 11550714312 | 2012-13 | 25544788.00 | 25333700.00 | 211088.00 |
| | | 2013-14 | 34395241.90 | 34395491.00 | -249.10 |
| M/s. Future Value Retail Ltd. | 11810324212 | 2012-13 | 7169885.95 | 17501485.52 | -10331599.57 |
| | | 2013-14 | 9488825.96 | 12175925.56 | -2687099.60 |
| M/s. Banwarilall Omkarmull | 11400122912 | 2012-13 | 0 | 0 | 0.00 |
| | | 2013-14 | 4260000.00 | 1507000.00 | 2753000.00 |
| M/s. Laxmi Surana | 11046653612 | 2012-13 | 1207629.00 | 1207629.00 | 0.00 |
| | | 2013-14 | 1663133.00 | 1663133.00 | 0.00 |
| M/s. Madhukar Prasad Gupta | 11306524412 | 2012-13 | 1046934.00 | 1083174.00 | -36240.00 |
| | | 2013-14 | 1774825.00 | 1748303.00 | 26522.00 |
| M/s. Maheshwari Trading Co. | 11839793712 | 2012-13 | 2059802.52 | 2684275.00 | -624472.48 |
| | | 2013-14 | 2382206.29 | 2903473.37 | -521267.08 |
| M/s. Internet Point | 11968032212 | 2012-13 | 4183392.00 | 5288664.91 | -1105272.91 |
| | | 2013-14 | 125793.66 | 125772.66 | 21.00 |
| M/s. Zion Mobile Store | 11757395312 | 2012-13 | 21363988.58 | 22356578.00 | -992589.42 |
| | | 2013-14 | 30940027.05 | 30936044.00 | 3983.05 |
| M/s. Dew Kumar Thapa | 11934907312 | 2012-13 | 1809260.00 | 0 | 1809260.00 |
| | | 2013-14 | 5415000.00 | 0 | 5415000.00 |

Source: Online data of ITC Purchases and Quarterly Returns. *'Difference' denotes is the amount of ITC purchases minus amount of local purchases shown in the returns.

Appendix 4.15.1

KVA demand of the HTS consumers

(Reference: Paragraph 4.15, Page 121)

| Sl. No. | Month | Energy units consumed | Equivalent KVA demand for the consumption | Contracted Demand | Excess demand | KVA charge | Twice the KVA charge to be levied |
|--|------------------------------------|-----------------------|---|-------------------|---------------|------------|-----------------------------------|
| LLHP II (Non-Residential HTS) | | | | | | | |
| 1 | Universal Enterprises | | | | | | |
| | Apr-12 | 632000 | 1829 | 1600 | 229 | 220 | 100760 |
| | May-12 | 596000 | 1725 | 1600 | 125 | 220 | 55000 |
| | Jun-12 | 703000 | 2034 | 1600 | 434 | 220 | 190960 |
| | Jul-12 | 690000 | 1997 | 1600 | 397 | 220 | 174680 |
| | Aug-12 | 630000 | 1823 | 1600 | 223 | 220 | 98120 |
| | Sep-12 | 628000 | 1817 | 1600 | 217 | 220 | 95480 |
| | Oct-12 | 569000 | 1646 | 1600 | 46 | 220 | 20240 |
| | Nov-12 | 582000 | 1684 | 1600 | 84 | 220 | 36960 |
| | Dec-12 | 616000 | 1782 | 1600 | 182 | 220 | 80080 |
| | Mar-13 | 610000 | 1765 | 1600 | 165 | 220 | 72600 |
| | May-13 | 702000 | 2031 | 2000 | 31 | 450 | 27900 |
| | Jun-13 | 770000 | 2228 | 2000 | 228 | 450 | 205200 |
| | Jul-13 | 860000 | 2488 | 2000 | 488 | 450 | 439200 |
| | Aug-13 | 798000 | 2309 | 2000 | 309 | 450 | 278100 |
| | Sep-13 | 840000 | 2431 | 2000 | 431 | 450 | 387900 |
| | Oct-13 | 763000 | 2208 | 2000 | 208 | 450 | 187200 |
| | Nov-13 | 767000 | 2219 | 2000 | 219 | 450 | 197100 |
| | Dec-13 | 869000 | 2514 | 2000 | 514 | 450 | 462600 |
| | Jan-14 | 735000 | 2127 | 2000 | 127 | 450 | 114300 |
| Topakhani (Non-Residential HTS) | | | | | | | |
| 2 | Airtel Mobile Tower, Sawney | | | | | | |
| | Apr-12 | 13271 | 38 | 25 | 13 | 145 | 3770 |
| | May-12 | 14736 | 43 | 25 | 18 | 145 | 5220 |
| | Jun-12 | 9911 | 29 | 25 | 4 | 145 | 1160 |
| | Jul-12 | 15347 | 44 | 25 | 19 | 145 | 5510 |
| | Aug-12 | 10839 | 31 | 25 | 6 | 145 | 1740 |
| | Sep-12 | 14174 | 41 | 25 | 16 | 145 | 4640 |
| | Oct-12 | 16380 | 47 | 25 | 22 | 145 | 6380 |
| | Nov-12 | 8897 | 26 | 25 | 1 | 145 | 290 |
| | Dec-12 | 13960 | 40 | 25 | 15 | 145 | 4350 |
| | May-13 | 14417 | 42 | 25 | 17 | 150 | 5100 |
| | Nov-13 | 11574 | 33 | 25 | 8 | 150 | 2400 |
| | Jan-14 | 11091 | 32 | 25 | 7 | 150 | 2100 |
| 3 | Torrent Pharmaceuticals Ltd | | | | | | |
| | Jun-13 | 537990 | 1557 | 1500 | 57 | 450 | 51300 |
| | Jul-13 | 560594 | 1622 | 1500 | 122 | 450 | 109800 |
| | Aug-13 | 592347 | 1714 | 1500 | 214 | 450 | 192600 |
| | Sep-13 | 574981 | 1664 | 1500 | 164 | 450 | 147600 |
| LLHP I (Non-Residential HTS) | | | | | | | |
| 4 | Airtel Company Pvt. Ltd. | | | | | | |
| | Apr-12 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | May-12 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | Jun-12 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | Jul-12 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | Aug-12 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | Sep-12 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | Oct-12 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | Nov-12 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | Dec-12 | 11000 | 32 | 25 | 7 | 145 | 2030 |

| | | | | | | | |
|-----------|---|--------|-----|-----|-----|-----|------------------|
| | Jan-13 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | Feb-13 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | Mar-13 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | Apr-13 | 11000 | 32 | 25 | 7 | 150 | 2100 |
| | May-13 | 11000 | 32 | 25 | 7 | 150 | 2100 |
| | Jun-13 | 11000 | 32 | 25 | 7 | 150 | 2100 |
| | Jul-13 | 11000 | 32 | 25 | 7 | 150 | 2100 |
| | Aug-13 | 11000 | 32 | 25 | 7 | 150 | 2100 |
| | Sep-13 | 11000 | 32 | 25 | 7 | 150 | 2100 |
| | Oct-13 | 11000 | 32 | 25 | 7 | 150 | 2100 |
| | Nov-13 | 11000 | 32 | 25 | 7 | 150 | 2100 |
| | Dec-13 | 11000 | 32 | 25 | 7 | 150 | 2100 |
| | Jan-14 | 11000 | 32 | 25 | 7 | 150 | 2100 |
| | Feb-14 | 11000 | 32 | 25 | 7 | 150 | 2100 |
| 5 | Bharati Cellular Pvt. Ltd. | | | | | | |
| | Jun-12 | 11923 | 34 | 25 | 9 | 145 | 2610 |
| | Aug-12 | 9076 | 26 | 25 | 1 | 145 | 290 |
| | Sep-12 | 9817 | 28 | 25 | 3 | 145 | 870 |
| | Dec-12 | 10115 | 29 | 25 | 4 | 145 | 1160 |
| | May-13 | 9800 | 28 | 25 | 3 | 150 | 900 |
| | Jun-13 | 13934 | 40 | 25 | 15 | 150 | 4500 |
| | Jul-13 | 8744 | 25 | 25 | 0 | 150 | 0 |
| | Sep-13 | 9300 | 27 | 25 | 2 | 150 | 600 |
| | Nov-13 | 8927 | 26 | 25 | 1 | 150 | 300 |
| | Feb-14 | 10712 | 31 | 25 | 6 | 150 | 1800 |
| 6 | Vodafone Essar Pvt. Ltd. | | | | | | |
| | May-13 | 10440 | 30 | 25 | 5 | 150 | 1500 |
| 7 | MayFair Hotel & Resort Pvt. Ltd. | | | | | | |
| | Jun-12 | 178000 | 515 | 500 | 15 | 220 | 6600 |
| | May-13 | 198665 | 575 | 500 | 75 | 450 | 67500 |
| | Jun-13 | 227500 | 658 | 500 | 158 | 450 | 142200 |
| 8 | Epitome Petro Chemical Pvt. Ltd. | | | | | | |
| | Sep-12 | 240015 | 694 | 625 | 69 | 220 | 30360 |
| 9 | Hutchisson Essar Co. Namli | | | | | | |
| | Aug-12 | 35840 | 104 | 25 | 79 | 145 | 22910 |
| | Sep-12 | 10056 | 29 | 25 | 4 | 145 | 1160 |
| 10 | Dishnet Wireless Pvt. Ltd. Kayathang | | | | | | |
| | Apr-12 | 30640 | 89 | 25 | 64 | 145 | 18560 |
| | May-12 | 25300 | 73 | 25 | 48 | 145 | 13920 |
| | Jun-12 | 27800 | 80 | 25 | 55 | 145 | 15950 |
| | Jul-12 | 27930 | 81 | 25 | 56 | 145 | 16240 |
| | Oct-12 | 27010 | 78 | 25 | 53 | 145 | 15370 |
| 11 | Smile Land Resorts | | | | | | |
| | Dec-12 | 11880 | 34 | 25 | 9 | 145 | 2610 |
| 12 | Tata Tele Services Pvt Kayathang | | | | | | |
| | Jun-12 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | Jul-12 | 11000 | 32 | 25 | 7 | 145 | 2030 |
| | SD-II East (Non-Residential HTS) | | | | | | |
| 13 | Vodafone Essar Pvt. Ltd. | | | | | | |
| | Mar-13 | 14424 | 42 | 25 | 17 | 145 | 4930 |
| | Rongli (Non-Residential HTS) | | | | | | |
| 14 | Telephone Exchange, Rhenock | | | | | | |
| | Apr-12 | 12049 | 35 | 25 | 10 | 145 | 2900 |
| | TOTAL | | | | | | 41,95,600 |

Appendix 5.2.1

Audit conducted during 2014-15 under General Sector

(Reference: Paragraph 5.2; Page 128)

(₹ in crore)

| Name of the unit | Expenditure of the unit (i.e. expenditure of the unit for the financial year for which audit conducted) | | | | |
|--|---|--------------|---------------|----------------|--------------|
| | 2010-11* | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Principal Secretary, Home Department | - | - | - | 19.42 | - |
| Secretary, Printing and Stationery Department | - | - | - | 7.02 | - |
| Director General of Police, Police Department | 5.49 | 6.16 | 6.49 | 6.30 | - |
| Inspector General of Police, Training | - | 2.45 | 2.47 | 2.71 | - |
| Sr. Superintendent of Police, Gyalshing | 6.75 | 6.76 | 7.81 | 9.72 | - |
| Commandant, Sikkim Armed Police, Pangthang | - | - | 36.82 | 38.69 | - |
| Commandant, 3 rd Battalion, Indian Reserve Battalion of Police | - | - | 14.97 | 19.30 | - |
| Commandant, 1 st Battalion Indian Reserve Battalion of Police | - | - | - | 38.46 | - |
| Commandant, 2 nd Battalion Indian Reserve Battalion of Police | - | - | - | 18.34 | - |
| Additional Director General of Police, Check Post Branch | - | - | - | 8.85 | - |
| Secretary, Department of Personnel, Administrative Reforms, Training and Public Grievances | - | - | - | 4.78 | - |
| Secretary, Information Technology Department | - | - | - | 5.32 | - |
| District Collectorate, Gangtok | - | 5.12 | 8.24 | 7.26 | - |
| District Collectorate, Mangan | - | - | 5.50 | 5.54 | - |
| Registrar General, High Court of Sikkim | - | 6.83 | 7.81 | 9.03 | - |
| Secretary, High Court Legal Committee, Gangtok | - | 0.07 | 0.07 | 0.11 | - |
| Civil Judge, South, Namchi | - | 1.56 | 1.67 | 2.64 | - |
| District and Session Judge, North East, Gangtok | - | 3.45 | 3.52 | 4.06 | - |
| Commissioner-cum-Secretary, Raj Bhawan | - | - | - | 5.75 | - |
| Secretary, Land Revenue and Disaster Management Department, | - | 8.58 | 4.73 | 6.53 | - |
| Secretary-cum-Relief Commissioner, State Disaster Response Fund | - | 8.58 | 4.73 | 6.53 | - |
| Special Secretary, Land Records | - | 2.41 | 0.84 | 0.93 | - |
| Principal Secretary, Finance Revenue and Expenditure Department | - | - | - | 334.15 | - |
| Secretary, Department of Personnel, Administrative Reforms, Training and Public Grievances | - | - | - | 4.78 | - |
| Director, Sikkim Lotteries | - | - | - | 432.90 | - |
| Principal Director, Accounts and Administrative Training Institute | - | 0.88 | 0.91 | 0.68 | - |
| Election Commissioner, Election Department | - | - | - | 3.22 | - |
| Principal Secretary, State Excise (Abkari) Department | - | - | - | 6.41 | - |
| Dy. Commissioner, State Excise (Abkari), Jorethang | - | 2.19 | 1.32 | 1.52 | - |
| Secretary, Information and Public Relation Department | - | - | - | - | 12.80 |
| District Information Officer/South, Information and Public Relation Department | - | 0.23 | 0.31 | 0.31 | - |
| Principal Secretary, Sports and Youth Affairs Department | - | - | - | - | 16.11 |
| Joint Director, Sports and Youth Affairs Department, South/West, Namchi | - | 1.71 | 1.16 | 1.36 | - |
| Development Commissioner, Development, Planning and Economic Reform & NECA Department | - | - | - | 18.37 | - |
| TOTAL | 12.24 | 56.98 | 109.37 | 1030.99 | 28.91 |

APPENDICES

SOCIAL SECTOR

ECONOMIC SECTOR

**ECONOMIC SECTOR
(Public Sector Undertakings)**

REVENUE SECTOR

GENERAL SECTOR

**FOLLOW UP OF AUDIT
OBSERVATIONS**

EXECUTIVE SUMMARY

2016

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